BANCA D'ITALIA

Economic Bulletin

Number 1 October 1985

BANCA D'ITALIA

Economic Bulletin

October 1985 Number 1

FOREWORD

In 1945 the Bank of Italy published its first issue of the Bollettino statistico. *Then, in 1971, reviving the title of a collection of studies in honour of Luigi Einaudi, it started the series* Contributi alla ricerca economica. *Subsequently, in October 1983, statistical and research strands were complemented by the publication of the* Bollettino economico. *As of this issue, the* Bollettino *will also appear in an English version, the content of which may differ slightly from the Italian to meet the needs of an international readership. This last strand is designed to provide a wide circle of economists, businessmen, bankers and commentators with a useful tool in their continuing discussion and analysis of economic developments and policies.*

Economic policy is now continuously scrutinized and debated in public fora. For the Bank to perform its institutional tasks, an accurate assessment of developments is essential. We benefit from an invaluable flow of information and critical analysis from external sources: scholars, practical economists, journalists and research institutes. Inside the Bank this analysis is entrusted mainly to the Research Department, which practices and carries forward a tradition of economic ideas, of diligents in research and of a sense of public service that has been kept alive through changing generations and circumstances.

The flow of figures and information to the various divisions of the Research Department has become more abundant over the years. Data that were collected monthly or quarterly are now available day by day. Phenomena that were measured only in aggregate terms are now broken down into their basic components. Aspects of the international economy that were difficult to document or considered to have little influence on domestic affairs are now monitored on a regular basis. Nonetheless, it remains difficult, as always, to interpret economic signs, to identify the underlying trends and needs of the economy and to draw the appropriate conclusions for policy action. The mass of information available sometimes conveys contradictory messages, while economic theory, which should illuminate and bring order to them so as to arrive at general conclusions, is torn by even greater controversy than in the past.

The period involved in acquiring knowledge, comparing evidence and grappling with doubts, which precedes and enriches the moment of decision taking, has grown more important and more demanding. It appears well worthwhile that our interlocutors outside the Bank should participate more closely in this process. Inside the Bank, the regular preparation of a concise and systematic description of actual developments can only advantage their interpretation.

Freedom of choice increases with the independence of economic study and interpretation. Achievement of this condition requires that, within the Bank itself, in its economic analyses and their presentation in publications such as the Economic Bulletin, *there should be the intellectual freedom without which no study can be fruitful.*

CARLO AZEGLIO CIAMPI

CONTENTS

INSERTS

Economic development and policies

SYMBOLS AND CONVENTIONS

— when the phenomenon in question does not occur, or does occur and is observed but not in this case;

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

.. when the value is known but is less than the minimum figure considered significant.

"Mining and manufacturing" comprises fuel and power products (NACE-CLIO R25-06)

"Post Office deposits" includes PO savings certificates

Economic developments and policies

The international economy

The slowdown of the world economy and economic policies

In the first half of 1985 the world economy grew less rapidly than in the previous year. The slowdown was greater than expected by international organizations and, in the industrial area, was most pronounced in the United States; among developing countries, exporters of fuel and of other primary goods were principally affected.

Compared with 1984, differentials between the United States and the other industrial countries in the pace of real income growth narrowed substantially. However, they remained significantly wide in terms of domestic demand, even though more contained than in the previous year. The narrowing of cyclical differences was not sufficient to reduce imbalances in the merchandise and current accounts; rather, an opposing tendency predominated owing to movements in relative competitive positions.

In the United States, income grew at an annual rate of 1.9 per cent in the first three quarters, rendering problematical the realization of the official target of 3 per cent average growth for the year. The slowdown was largely due to the crowding out of the domestic supply by foreign products and to a more sluggish pace in stockbuilding. Fixed investment also declined after the marked expansion in 1984; consumer spending continued to be brisk.

In Japan, domestic demand expanded at an annual rate of 4 per cent, largely spurred by private investment. Declining exports in the first quarter slowed GNP growth which, nonetheless, remains high (4.5 per cent).

In Europe, economic developments showed little significant change from the prevailing trends of 1984. The United Kingdom recorded the most sustained growth, partly under the influence of exports, which were encouraged by the depreciation of sterling during 1984, and partly as a consequence of fixed investment expenditure. Investment was boosted by the reduction in corporate taxes and by the tendency of firms to bring forward investment expenditures to take advantage of the more generous depreciation allowances which are gradually being phased out. In Germany, a 1 per cent decline in real GNP in the first three months was followed by a recovery which was mainly supported by the marked expansion in exports, whereas domestic demand remained weak. Economic activity is expected to strengthen in the second half of the year, reinforced by the recent reduction in the Lombard and discount rates, and permit a rate of output growth officially estimated at 3 per cent for the year as a whole, though international organizations envisage a lower figure of 2.5 per cent. In France, where final domestic demand remained depressed, stockbuilding was the main factor contributing to a modest growth in GDP.

For the EEC as a whole, output is expected to grow by about 2.3 per cent, and unemployment is estimated to reach 10.8 per cent compared with 10.5 in 1984 (Table 1). The largest increase in unemployment is forecast for France where the already substantial rise in 1984 seems destined to be topped, and while in the United Kingdom economic expansion should curb the increase in the unemployment rate, it still remains one of the highest in the industrialized area. Labour markets in the United States and in Japan show movements opposite to those in Europe: in both countries unemployment is expected to decline further in consequence of the growth in the number of employed. In the United States, the August unemployment rate (7 per cent) was the lowest in five years.

Table 1

Labour force and unemployment in the major industrial countries

(% changes)

	1983	1984	1985(1)
United States			
Labour force	1.2	1.8	1.8
Employment	1.3	4.1	2.0
Unemployment	0.4	−20.3	−1.2
Unemployment rate (2)	9.6	7.5	7.3
Japan			
Labour force	2.0	0.7	1.3
Employment	1.7	0.6	1.5
Unemployment	14.7	3.2	−6.8
Unemployment rate (2)	2.6	2.7	2.5
EEC			
Labour force	0.3	0.7	0.7
Employment	−0.7	0.2	0.3
Unemployment	12.8	4.8	4.1
Unemployment rate (2)	10.1	10.5	10.8
of which:			
Germany			
Labour force	−0.1	−0.2	0.5
Employment	−1.7	−0.2	0.3
Unemployment	23.2	0.4	2.6
Unemployment rate (2)	8.4	8.4	8.6
France			
Labour force	−0.5	0.2	0.1
Employment	−0.7	−1.0	−0.8
Unemployment	1.4	13.1	8.4
Unemployment rate (2)	8.8	9.9	10.7
United Kingdom			
Labour force	0.7	1.8	1.6
Employment	−0.4	1.5	1.3
Unemployment	9.3	3.7	3.5
Unemployment rate (2)	11.6	11.8	12.0

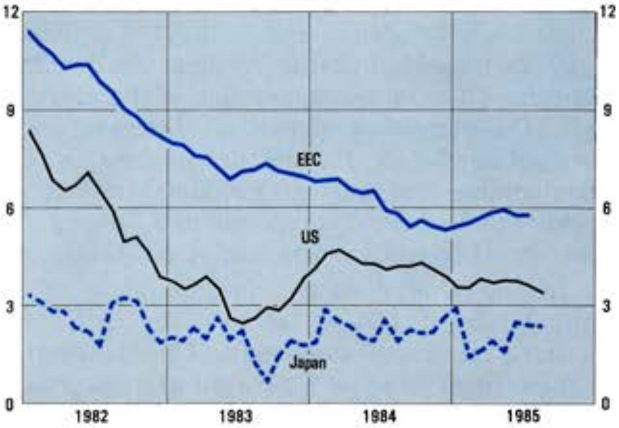
Source: EEC, OECD.
(1) Forecasts. — (2) Level.

The process of disinflation has continued in the major industrial countries, even though in a less intensive way (Figure 1). In the United States, moderate wage growth induced by expectations of further gains against inflation and by cost constraints imposed by losses in external competitiveness were contributing factors. In the EEC, wage behaviour and demand-restraint policies, especially of a fiscal nature, helped to moderate the inflation rate. Other contributing factors were declining oil and non-oil commodity prices (Figure 2): the dollar prices of crude oil fell by 4 per cent compared with the corresponding period in 1984, reflecting the glut in world markets and the substantial discounts offered by producing countries, a policy also followed recently by Saudi Arabia. The marked decline in the prices of other raw materials (13 per cent), in the third year of economic recovery in the OECD area, is attributable to ample supplies as well as to weak inventory demand in the face of persistently high real interest rates.

Figure 1

Consumer prices

(twelve-month % changes)



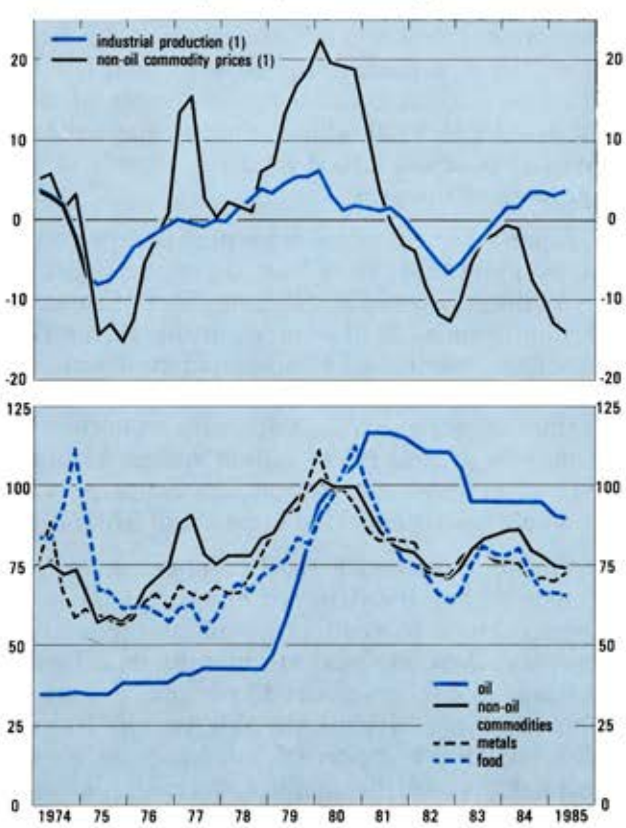
Source: OECD.

The conduct of monetary policy in the major industrial countries has been characterized by greater flexibility in the attention given to targets for the aggregates. From the second quarter of 1985 short-term interest rates have been declining and at a faster pace in the United States than elsewhere. From the early months of the year, the US monetary authorities adopted a permissive stance in response to signs of a cyclical slowdown in the economy and to the appreciation of the exchange rate. M1, and also M2 in August, exceeded the upper limits of their target range. In July, the range of variation for M1 growth in the second half of 1985, originally set at 4-7 per cent, was revised to 3-8 per cent, and the second-quarter level — which was higher than initially targeted — was taken as a new reference base. In May, the discount rate was reduced from 8 per cent to 7.5 in line with the decline in short term interest rates, which continued to move downwards up to about mid-year. In August the provision of bank reserves was restrained, leading to a moderate firming-up of short-term interest rates. In the other industrial countries, interest rates followed only partly the change in monetary conditions in the United States. This behaviour

Figure 2

Commodity prices in dollars and industrial production in the OECD area

(indices, 1980 = 100)



Source: IMF.
(1) Shifts from a linear trend.

was not an indication of a deliberate tightening of monetary policy: rates of monetary growth were actually higher than in 1984, and in the case of the United Kingdom and France were higher than targeted. In Japan, the desire to promote an appreciation of the exchange rate discouraged a lowering of interest rates. In the United Kingdom, interest rates were abruptly adjusted upwards in the beginning of the year as a consequence of downward pressures on sterling; in the months following, however, they declined gradually.

Fiscal policy continues to be characterized by the divergence between the expansionary stance in the United States and the basically restrictive one pursued by other large industrial countries considered as a whole. According to official forecasts, the deficit of the US Federal Government is expected to amount to $222 billion in 1985 (5.6 per cent of GNP compared with 5.1 in 1984). The budget for fiscal 1986 which was presented in February contained expenditure cuts of $51 billion; however, it had a difficult passage through Congress before eventual approval in the Budget Resolution. In consequence, the Federal deficit is now expected to amount to $175 billion (4.2 per cent of GNP) as against $230 billion on the basis of unchanged policies. On the other hand, according to the Congressional Budget Office and in the opinion of most observers, Congress is unlikely to approve expenditure cuts in excess of $20-30 billion. In Japan, France and Germany policy for 1985-86 is broadly aimed at a further reduction of the deficit in relation to GNP. In the United Kingdom the budget envisages cuts in public spending, some lowering of the tax burden and the adoption of "supply-side" measures to bolster employment.

Payments disequilibria and the depreciation of the dollar

In the first half of 1985, exports of the industrial countries grew by 5 per cent in volume terms in relation to the corresponding period in 1984, with the largest increases being recorded by the United Kingdom, Japan and Germany. In the aggregate, world trade is expected to expand at a rate of 3.5 per cent in the current year compared with 8.5 per cent in 1984, largely reflecting the slowing down of economic expansion in the industrial countries. Among developing countries, exporters of fuel and of other primary products have been most affected by the slower growth in the industrial area. Specifically, United States imports from these two groups of countries have declined sharply. Fuel-exporting developing countries are expected to record a greater deficit on current account than in 1984 ($7.8 billion compared with $3.2 billion) owing to the weakness of world demand and oil prices (Table 2). The merchandise and current account deficit of the other LDCs taken as a whole is not expected to be substantially different from the previous year. The situation seems more precarious for developing countries which export mainly primary products. These have been compelled to reduce imports as a result of a contraction in export growth (4 per cent as against 10 in 1984 according to IMF estimates) and a deterioration in their terms of trade (3.3 per cent according to the same source). On the other hand, the prospects for LDC exporters of manufactures are somewhat better.

Table 2

Balance of payments on current account (1)

(billions of dollars)

	1983	1984	1985 (2)
United States	−34.5	−93.0	−123.2
Other industrial countries	38.4	57.8	71.1
of which: Japan	22.2	36.4	45.6
Germany	10.0	13.2	19.9
France	−2.3	1.1	2.3
United Kingdom	8.0	3.7	5.3
Italy	0.8	−2.9	−6.3
Fuel exporters	−13.8	−3.2	−7.8
Other developing countries	−54.7	−38.9	−41.6
Memorandum item:			
Statistical discrepancies	−60.8	−70.6	−96.7

Source: IMF.
(1) Excluding official transfers. — (2) Estimates.

Current account imbalances among the industrial countries have widened further: the large deficit of the United States was matched by substantial surpluses in the other major economies, excluding Italy.

The United States recorded a merchandise trade deficit of about $70 billion in the first half of the current year compared with $60 billion in the corresponding period in 1984, reflecting almost entirely an increase in the volume of imports (10 per cent) in the face of stationary exports. The persistent buoyancy of domestic demand and the time lag between gains in competitiveness and their effects on trade will retard the adjustment of the imbalances created in the past two years. The appreciation of the dollar in recent years and the resultant loss in competitiveness for the American economy have given rise to two adverse developments. Demands for trade protection have grown and have become explicitly embodied in specific legislative proposals for the introduction of tariffs and barriers. In addition, the structure of the economy has been affected by a worsening of the dichotomy between the services sector — which is expanding rapidly — and agriculture and important industries, which are more exposed to international trade in situations of crisis. International organizations estimate that the US deficit on current account for the whole of 1985 will amount to $120 billion; the net international financial position turned negative already at the beginning of the year.

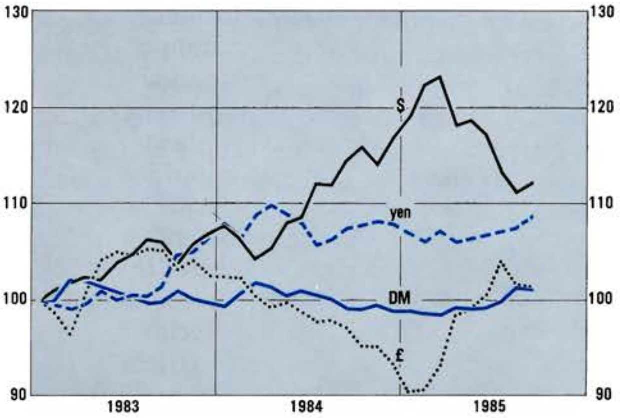
Japan's current account surplus is expected to rise by more than $9 billion above the figure of $36.4 billion reached in 1984: this is confirmed by the improvement in the trade surplus in the first half of the year ($24.5 billion compared with $19 for the same period in 1984). Germany recorded a substantial increase in its trade surplus in the first six months of 1985 ($10.5 billion against $6 in the first half of 1984); the current account surplus for the whole year is expected to be about $20 billion.

The dollar, which had continued to rise strongly during the first two months of the year, experienced a reversal of trend at the end of February. Over the next six months its effective exchange rate fell by about 12 per cent (Figure 3). After a sharp decline in March, under the influence of the concerted interventions by the central banks of the major industrial countries, the dollar depreciated more gradually in the following months. However, economic agents' uncertainties about the growth of the economy and about the prevailing monetary policy contributed to wide exchange rate fluctuations — even from day to day.

Figure 3

Effective exchange rates of the major currencies

(indices, January 1983 = 100, monthly averages)



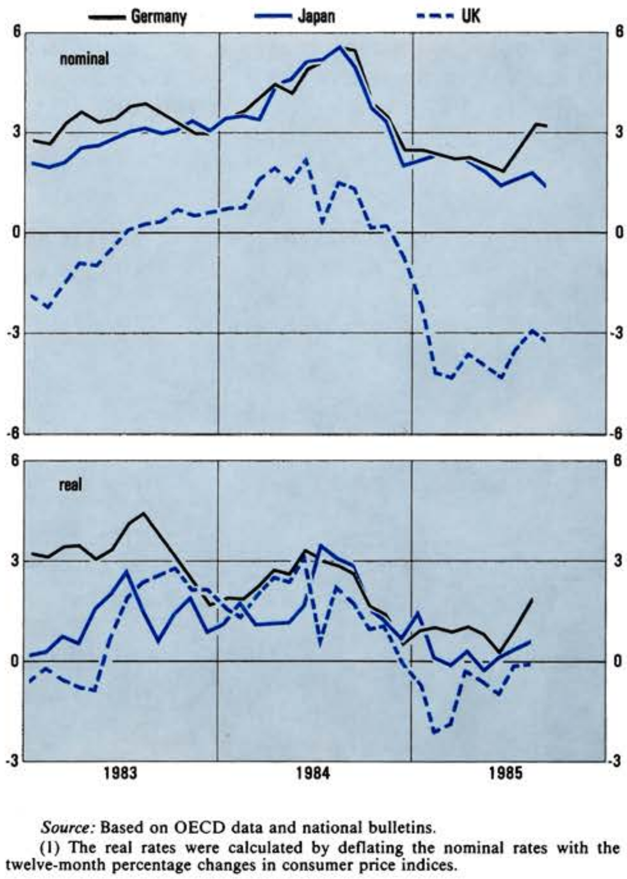
In early September signs of increased economic activity in the United States together with perceptions of a more restrictive stance by the Federal Reserve caused some recovery of the dollar. These developments in the presence of a marked worsening in the external trade deficit and growing protectionist sentiment at home, induced US authorities to modify their long-standing policy of non-intervention in foreign exchange markets and to agree, at a meeting of the G-5, to concerted action by the participating countries to bring down the value of the dollar. Immediately following the announcement of the agreement on 22 September, and partly in consequence of central bank intervention in foreign exchange markets, the dollar fell back 7 per cent in effective terms.

Previous to these events, large outflows of long-term capital from Japan moderated the appreciation of the yen (Figure 4). In relation to the dollar, the yen had gained only 4 per cent since the beginning of the year while real interest rate differentials between dollar and yen-denominated assets had almost disappeared.

In the three weeks following the announcement of the G-5 the yen appreciated by 11 per cent against the dollar. The Deutschemark, which had gained 8 per cent against the dollar up to 22 September, subsequently gained a further 9 per cent. On the other hand, the pound sterling had moved up rapidly from the first months of the year, after the rise in British interest rates, and was less affected than other currencies by the G-5 announcement. From the beginning of the year, sterling appreciated by 20 per cent against the dollar and by 8 per cent in effective terms. These developments which came after a long period of weakness, had also been spurred by the end of the British miners' strike and the recovery in output evident from late 1984.

Figure 4

Short-term interest rate differentials between the US and other countries (1)



Source: Based on OECD data and national bulletins.

(1) The real rates were calculated by deflating the nominal rates with the twelve-month percentage changes in consumer price indices.

Over the year to July, the EMS currencies subject to narrow margins of fluctuation remained broadly stable: neither of the compulsory intervention limits was reached and the two strongest currencies (the mark and the guilder) remained in the lower part of the band (Figure 5).

The lira weakened substantially between February and March and, for the first time since March 1983, settled down in the lower half of its wide fluctuation band. In the first two weeks of July it depreciated further. On 19 July, a day preceding the realignment requested by the Italian authorities, the Minister of the Treasury, faced with an anomalously high quotation for the dollar, ordered the closure of the foreign exchange markets so as to prevent any speculation on the lira. On the market day following the realignment, conditions had returned to normal. The lira moved to the upper part of the narrow band, appreciating by about 1.2 per cent against the central rates. After the implementation of the new rates and up to the middle of August, the French and Belgian francs came under downward pressure. In conjunction with the recent decline in the dollar, the mark and the guilder have strengthened within the EMS; the lira, however, has again weakened.

By the second week of October, the nominal effective exchange rate of the lira against the other currencies participating in the exchange rate arrangements had depreciated by 8.5 per cent compared with the same period a year ago and by 3.7 per cent with respect to the week prior to the realignment.

Italy's competitiveness vis-à-vis the other EEC countries, measured in terms of the wholesale prices of manufactured goods, has improved substantially since the beginning of the year (6.8 per cent) whereas that of the United Kingdom has worsened (about 12 per cent). Changes among the other countries were more contained; specifically, the Netherlands lost 2 per cent while Belgium gained 2 per cent, and Germany recorded no change.

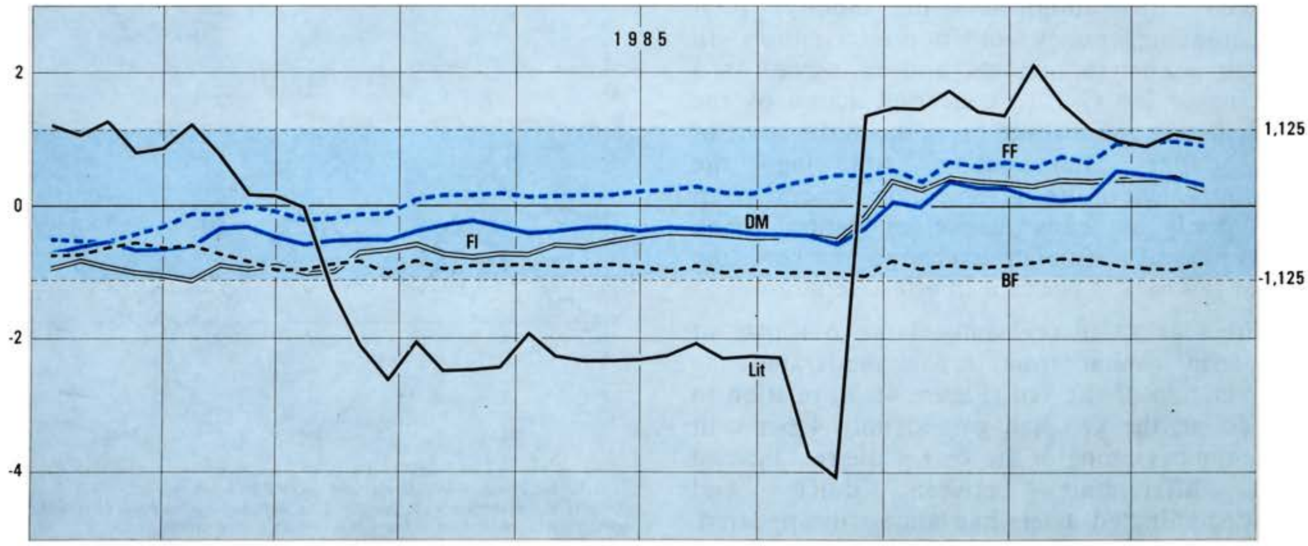
International capital markets and the foreign debt problem

According to OECD data, gross funds raised on international capital markets amounted to

Figure 5

Divergence of market quotations from EMS central rates

(percentages)



$199 billion in the first nine months of the year, an increase of 43 per cent with respect to the same period in 1984 (Table 3). The major trends which emerged over the previous two years were confirmed: bond issues continued to expand rapidly compared with borrowing from banks, and the geographical segmentation of the markets became more pronounced, with industrial countries taking up more than 80 per cent of total financing and non-oil developing countries further contracting their share of borrowing. International bond issues amounted to $121 billion; the marked increase in floating-rate notes compared with the same period in 1984 — about 35 per cent of the total — evidences their attractiveness to economic agents seeking shelter from volatile market conditions.

Table 3

International capital markets

(billions of dollars)

	1983	1984	1984 Jan.-Sept.	1985 Jan.-Sept.
Bank loans (1)	76.7	89.2	64.1	78.2
of which: back-up facilities	9.5	27.3	15.3	31.1
Bond issues (2)	77.1	111.5	75.2	121.1
of which: FRNs	19.5	38.2	25.5	43.0
Total	**153.8**	**200.7**	**139.3**	**199.3**
Memorandum item:				
distribution by groups of borrowers (per cent)				
Industrial countries	70.0	76.3	76.0	80.8
Non-oil LDCs	17.9	14.1	14.4	9.4
Other	12.1	9.6	9.6	9.8
Currency distribution (per cent) (3)				
US dollar	68.1	66.6		64.1
Yen	6.4	7.7		7.6
Swiss franc	9.4	8.5		7.1
ECU	1.8	2.8		5.6
Pound sterling	3.9	5.1		5.5
Deutschemark	5.0	4.7		4.8
Other	5.4	4.6		5.3

Source: OECD.

(1) Announced medium and long-term Eurocredits plus loans in domestic currency to non-residents, excluding merger-related facilities to corporations. — (2) International issues plus foreign issues in domestic market. — (3) For 1985, January-May.

With regard to bank credit, back-up facilities — banks' underwriting of note issuance — was the fastest growing component. Their recent expansion, along with other "off-balance-sheet" transactions, has been a cause for concern for supervisory authorities owing to the risks involved for the soundness of single banks and the stability of the financial system as a whole. Accordingly, the G-10 central bank governors, in a concerted action, agreed to invite the banking communities of their respective countries to give maximum attention to the growth of "off-balance-sheet" operations and the risks involved.

Traditional syndicated loans decreased further; those granted under debt rescheduling agreements were for a relatively small amount ($1 billion compared with $11 for the whole of 1984). At the same time, given the continuation of favourable market conditions for borrowers, more frequent recourse was made to refinancing of old debts in advance of maturity. The average spread over LIBOR fell from 0.9 per cent in 1984 to 0.6 at present; for industrial countries the figure is less than 0.5 per cent.

With regard to currency composition, financing in ECU has risen to 5.6 per cent of total credit from an average of 2.3 in the years 1983–84. Consequently, the ECU now ranks fourth in order of importance after the dollar (65 per cent), the yen and the Swiss franc, and is widely used in operations involving innovative instruments (floating-rate notes and note-issuance facilities) as well as traditional ones.

The trend towards the deregulation of some important financial markets has continued. In Japan, the withholding tax on interest payments to non-resident holders of yen-denominated bonds was abolished; after an interval of four years, the Euro-French franc issues market was re-opened; in Germany, subject to communication of intention to the central bank, lead-management of issues by foreign borrowers can now be undertaken by resident foreign banks; moreover, issues involving floating rates, swap operations and zero-coupons are now permitted. Finally, the Italian authorities have permitted Euro-bond issues denominated in lire, and a first issue by the European Investment Bank was placed early in October.

There has been a marked deterioration in the situation of indebted developing countries. The decline in export earnings together with rigid constraints on the possibility of new borrowing has reduced their capacity to import and, in consequence, worsened their growth prospects. The financial indicators registered a deterioration. Despite the small increase in foreign debt — substantially lower than in the early eighties because of the virtual drying up of loans to heavily indebted LDCs — and the decline in interest rates, the ratio of debt service to exports is expected to increase (from 23.4 per cent in 1984 to 25.6 in 1985) in consequence of a reduction in exports (Table 4). A multi-year rescheduling arrangement has been concluded with Mexico and Venezuela, and debt renegotiations concerning important countries such as Brazil, the Philippines and Yugoslavia are in progress. Peru has recently announced its intention to limit its servicing of debt over the next year to not more than 10 per cent of export earnings, a decision which is tantamount to a partial debt-servicing moratorium. Difficulties have also arisen in Brazil, with regard to the adjustment policies worked out with the IMF; on the other hand, a new programme has been approved with Argentina following the introduction of drastic measures to stabilize the economy. In the seven months of 1985 there was a substantial reduction in IMF lending to developing countries. New loans amounted to SDR 2.2 billion against SDR 1.9 billion in repayments, compared with SDR 5 billion and 1 billion, respectively, in the same period in 1984. Furthermore, loans approved by the World Bank declined by about 5 per cent in financial 1985.

The reform of the international monetary system

In May the Deputies' Report to the Ministers and Governors of the Group of Ten on the functioning of the international monetary system was completed. It was discussed by the Ministers and Governors at a meeting in Tokyo on 21 June. The report contains proposals on the exchange rate system, multilateral surveillance, the control of international liquidity and the role of the IMF. The main conclusion of the report is that the orderly functioning of the exchange rate system and the removal of international monetary and financial imbalances will not be possible without greater coordination of economic policies by the major industrial countries. The implementation of policies compatible with greater exchange rate stability should be guaranteed by strengthening the procedures of multilateral surveillance in which a key role would be played by the IMF.

Table 4

Capital importing developing countries: external debt (1)

	1983	1984	1985 (2)
(billions of dollars, end-of-period data)			
Total debt	**796.9**	**829.5**	**865.1**
of which:			
short-term	132.0	130.3	101.5
long-term	664.9	699.3	763.6
of which towards:			
official creditors	239.6	259.0	286.1
private creditors	314.3	333.6	372.1
(% of exports)			
Debt service payments	**22.0**	**23.4**	**25.6**
due to:			
interest payments	13.3	13.6	13.8
amortization payments	8.8	9.8	11.8

Source: IMF
(1) All developing countries, excluding the eight major oil-exporters in the middle East. — (2) Estimated.

The Report of the Group of Twenty-Four was also completed recently. Although it examined the same problems as the G-10 report, it arrived at different conclusions. Specifically, with regard to the supply and distribution of international liquidity it recommended an immediate allocation of at least SDR 15 billion and in future years other issues on a regular basis, along with selective allocations to developing countries. On the role of the IMF, it recommends an increase in developing countries' quotas held in the Fund, the creation of a new facility to finance increased payments owing to possible rises in interest rates, an increase in loans and a lengthening of their maturities, and the continuation of the Enlarged Access policy.

The problems raised by these two reports were the subject of preliminary discussions at the October meeting of the IMF Interim Committee in Seoul. It was decided to entrust to the Board of Directors of the IMF the task of examining these problems further in preparation for the Spring 1986 meeting of the Interim Committee.

It was also decided at the Seoul meeting to continue in 1986 the Enlarged Access policy. However, largely at the request of the US delegation, the limits were further reduced: the annual limit from 95 per cent of the quota (or 115 in cases of more serious payments imbalances) to 90 (110), and the three-year limit from 280 (345) to 270 (330); the cumulative limit for outstanding credit was reduced from 408 (450) per cent to 400 (440). The Italian authorities expressed their concern over these decisions in the light of the troubling situation of LDCs and the possible negative effects on the behaviour of the international banking system. With regard to the allocation of SDRs, those countries which in previous years had opposed a new allocation held to their position; in the meantime, the Board of Directors has initiated an in-depth study of the function of the SDR in the international monetary system in preparation for the next meeting of the Interim Committee. As far as concerns the receipts from the repayment of Trust Fund loans (about SDR 2.7 billion), it was decided to utilize these funds to make concessionary loans to lower-income LDCs. Furthermore, the United States presented a plan designed to ease the debt burden of developing countries, envisaging increased funding by the World Bank to aid structural adjustment programmes and a resumption of private banks' credit flows to the more heavily indebted countries. Even though the change in the United States' position was positively received, the proposals put forward have not yet materialized into an appropriate plan of action.

Notwithstanding the general recognition of the necessity for extending the role of the World Bank, no decisions were reached on an increase of capital. It appeared, however, that the attitude of the United States on this question had become less rigid than in the past.

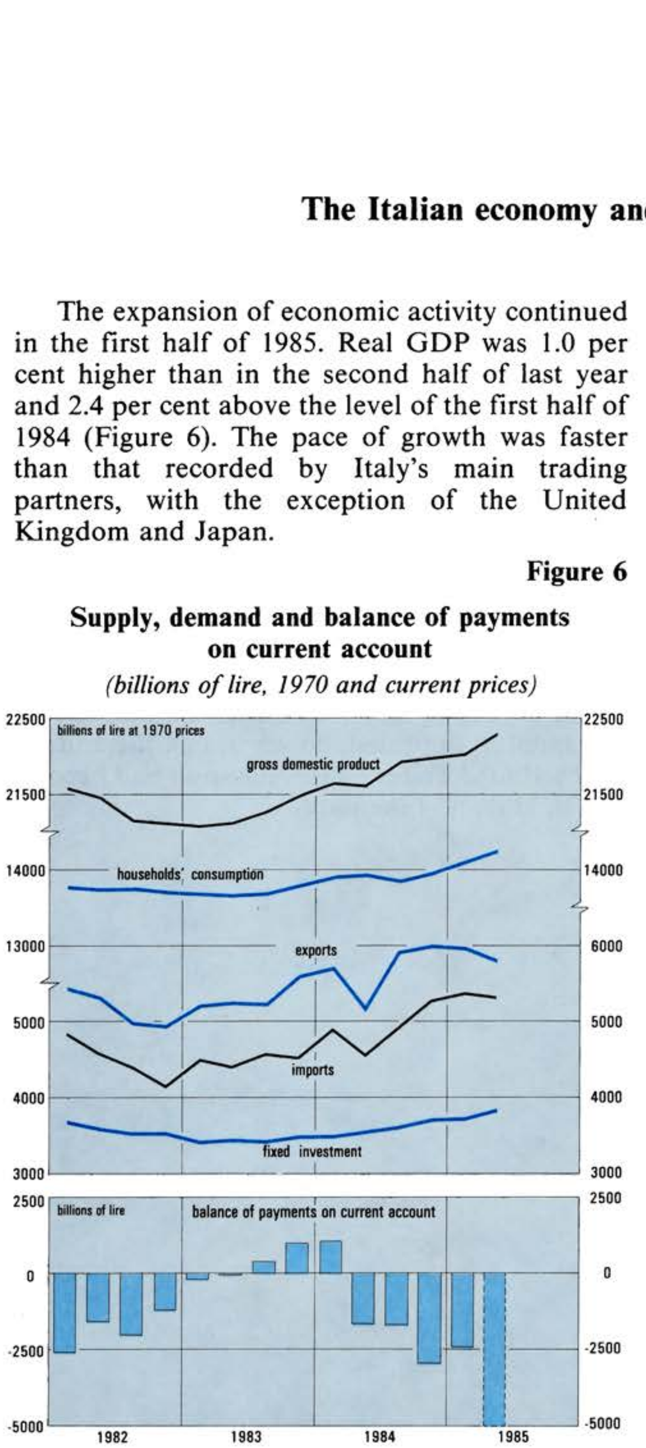
The Italian economy and the balance of payments

The expansion of economic activity continued in the first half of 1985. Real GDP was 1.0 per cent higher than in the second half of last year and 2.4 per cent above the level of the first half of 1984 (Figure 6). The pace of growth was faster than that recorded by Italy's main trading partners, with the exception of the United Kingdom and Japan.

Figure 6

Supply, demand and balance of payments on current account

(billions of lire, 1970 and current prices)



Source: Istat and Bank of Italy; data seasonally adjusted.

The stimulus to growth came from domestic demand, where there were emerging signs of change in the relative importance of the various components. The growth in fixed investment has been increasingly complemented by a recovery in household consumption, sustained by the rapid expansion of the government budget deficit.

The fast expansion of domestic demand in Italy relative to that in its major competitors is one of the chief causes of the worsening external payments deficit. Owing to a deterioration of the balance of trade in volume terms, combined with an adverse movement in the terms of trade, the trade deficit amounted to 16,792 billion lire through August, nearly 6,000 billion more than in the first eight months of 1984. The change was ascribable to an increase in the energy deficit and, even more, to a decrease in the surplus on trade in other goods. One factor contributing to this poor performance was the persistent decline in Italian competitiveness on European markets, which hit its low point early in 1985. In March the exchange rate of the lira, which had held to the upper part of the narrow EMS band since November, slid to the lower part of its wide band. In July, when the weakening of the dollar made it possible to hold the inflationary impact of devaluation to the minimum, the monetary authorities decided on a realignment of the lira's central EMS parities. The real trade-weighted exchange rate of the lira, calculated on the basis of wholesale manufactured goods prices, returned to around its 1982 level.

In the presence of expanding domestic demand and widespread uncertainty over the outcome of negotiations on the reform of the wage structure and indexation mechanisms, for much of 1985 inflation failed to slow further from its end-1984 rate. This was attributable in part to the impact of the sharp appreciation of the dollar over the first few months and more importantly to inflationary pressures in sectors not exposed to international competition. On average for the year, the rise in consumer prices is now expected to exceed the 7 per cent target by about two points, even though in recent months inflation has begun to ease once more.

Labour force surveys showed that for the first time since the start of the expansion in 1983 the number of jobs lost by employed workers in industry declined in the first six months, and resort to the Wage Supplementation Fund decreased. Although overall employment edged upwards in the first half, thanks to the usual strong expansion in the services sector, the unemployment rate again rose marginally.

Domestic demand and industrial output

Total domestic demand was 2.4 per cent higher, in real terms, in the first half of 1985 than in the previous half, and 3.2 per cent higher than in the first half of 1984. The fastest-growing demand component continued to be gross fixed investment, which expanded at an annual pace of 7 per cent. However, the aggregate comprising public and private consumption (together with the variation in stocks) also rose substantially, after remaining essentially stable in the second half of 1984. It expanded at an annual rate of about 4.5 per cent in the first six months (Figure 6).

On the one hand, then, the first half of the year saw the continuation of robust investment in response to the need of firms — public and private alike — to go ahead with reorganization and technological innovation. This process has been under way for some time now and is fostered in the current phase of the cycle by large margins of self-financing and a higher degree of capacity utilization. On the other hand, even though the increase in the private sector wage bill was only slightly greater than the inflation rate, the swelling in current government expenditure lent new support to consumer spending capacity.

Data on final domestic consumption by households, recently published by Istat as part of the new quarterly national economic accounts, reveal a recovery in the first six months after a decline of the second half of 1984. Although food consumption was essentially stagnant and services recorded only a small increase, there was strong growth in other components, especially of consumer durables. Expenditure on the latter was fueled chiefly by a strong demand for automobiles and motorcycles (which was satisfied in part by a substantial increase in imports).

After declining in the last quarter of 1984 and showing only a halting recovery in the first quarter of this year, production strengthened in the second quarter in response to improved demand expectations and a good level of domestic orders. Seasonally adjusted, industrial output was on average 3.5 per cent higher over the first six months than in the first half of 1984 and 1.6 per cent higher than in the second half of last year. Nonetheless, industrial output in June was still 4 per cent below its early-1980 peak (Figure 7).

In July and August, although the trend of domestic orders remained positive and foreign demand showed signs of improvement, the course of industrial output apparently weakened. The overall index of industrial production, corrected and seasonally adjusted, recorded an average decline for the two months (−1.4 per cent from May-June, −0.4 per cent from July-August 1984).

The most dynamic industries remained those producing final investment goods, though also joined in recent months by those producing final consumer goods. Despite the strong recovery of output in the capital goods industries, the continuing investment upswing has remained heavily dependent on imports. The origins of this dependence are partly cyclical, connected with the slowness of some domestic industries to respond to the market demand, and partly structural, related to Italy's product specialization and consequent difficulty in meeting the needs of firms engaged in sweeping reorganization and modernization efforts (see insert).

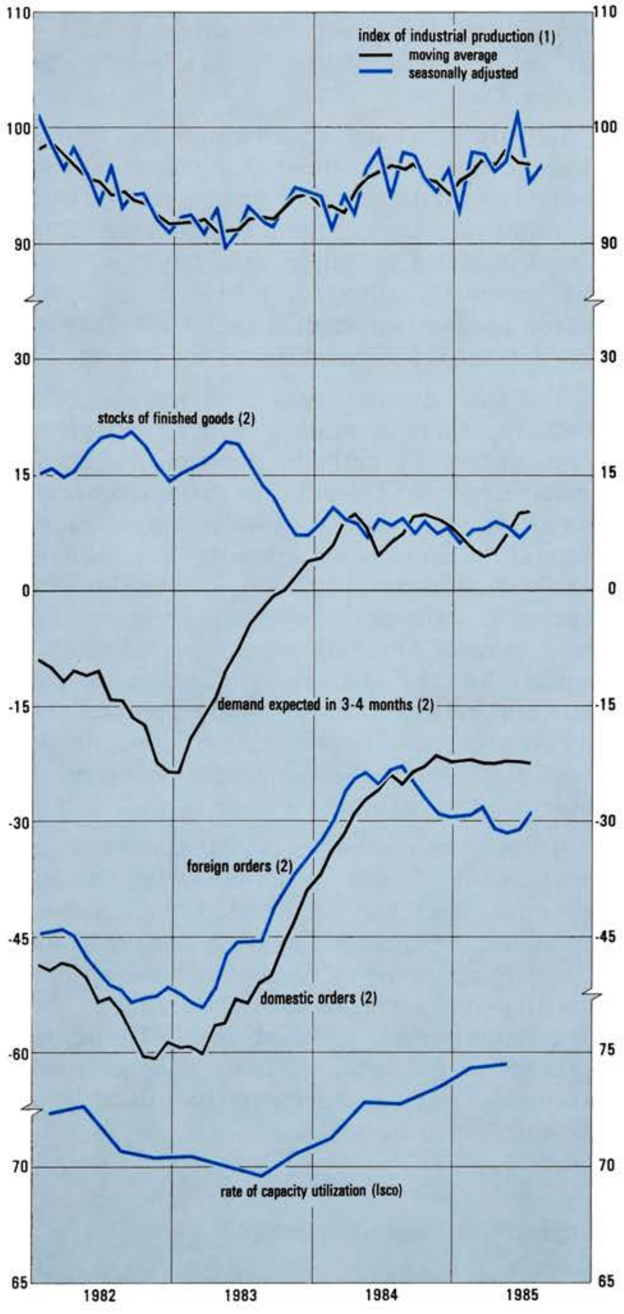
Turning to the prospects for the short term, the Isco-ME survey in late August and early September and that of the Mondo Economico *forum* in late September confirm the expectations of continuing growth for the remainder of the year that had emerged in earlier surveys. These expectations, now diffused over all the main branches of industry, are more buoyant than in previous surveys, especially for durable and non-durable consumer goods.

Employment, wages and prices

Owing to the extensive process of industrial restructuring under way, economic expansion has still had only modest effects on overall employment. Specifically, the number of persons

Figure 7

Output, demand, stocks and capacity utilization in industry excluding construction



(1) Overall index of industrial production (1980 = 100); developed from Istat data. — (2) Moving average of monthly replies to Isco-ME survey of businessmen; figures seasonally adjusted, except for stocks of finished goods.

engaged in mining and manufacturing continued to fall (by 60,000) in the first half of the year, although the decline in the number of wage-earners slowed down. Resort to the Wage Supplementation Fund eased slightly because of a pronounced fall in ordinary benefits: the number of hours paid was 344 million, as against 365 million in the first half of 1984.

Once again the expansion of demand for labour came primarily in the services sector, where employment was 1.1 per cent higher than in the first half of 1984, an increase of 120,000. This offset the decline in industry and agriculture. Nevertheless, the unemployment rate rose slightly, from 10.3 per cent in the second half of 1984 to 10.5 per cent in the first six months of this year (or from 12.3 to 12.5 per cent if those on wage supplementation are included).

The problem of employment, the focal point of the debate among political forces and of the negotiations on wage reform between business and labour, received a thorough analysis in a recent paper prepared by the Ministry of Labour. The study underscores the urgent need to make the problem of employment in the South of Italy a central issue for economic policy and the necessity of strengthening legislative provisions designed to make the labour market more flexible, encouraging part-time and temporary jobs.

Again in the first half of this year, adjustments in the utilization of labour and the upswing in industrial output led to significant productivity gains. Output per worker (net of wage supplementation) was about 2 per cent higher than in the second half of 1984, with a comparable rise in hourly output.

Earnings per worker in mining and manufacturing were 6.7 per cent higher in January-June than in the second half of last year, and 9.8 per cent more than in the corresponding period of 1984. Unit labour costs increased by 5.5 per cent in relation to the second half of 1984. Higher social security charges — as a result, immediately following the EMS realignment, of a decree law diminishing the government assumption of certain social security contributions — will produce an additional rise in industrial labour costs of about 1 per cent. On average for the year, unit labour costs should rise by approximately 6 per cent.

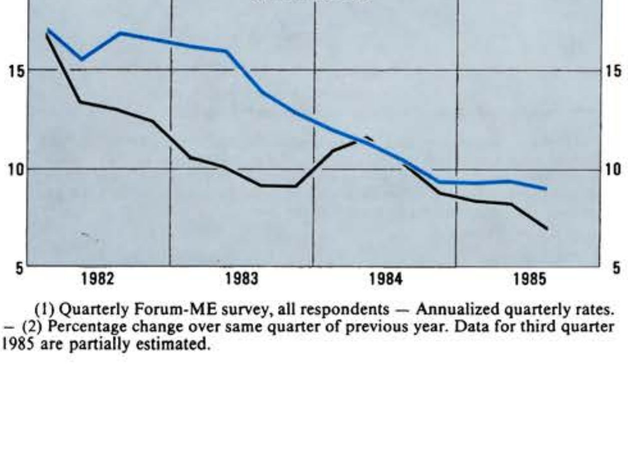
The cost of raw materials and semi-processed goods for industry was 6.4 per cent higher than in the second half of 1984. The sharp revaluation of the dollar early in the year was only partially offset by the continuing decline in world commodity prices. Final prices continued to increase faster than total unit costs, the margin widening slightly in the first half of the year (rises of 5.8 and 5.5 per cent, respectively, compared with the last six months of 1984). The expansion of domestic demand again led firms to concentrate on widening their profit margins rather than on expanding market shares by more determined efforts to hold prices down.

The pause in disinflation in the first half was accompanied by an analogous behaviour of inflationary expectations, which also felt the effects of uncertainty over the outcome of the referendum on the recuperation of *scala mobile* points. After the referendum, expectations turned more optimistic again, especially those with respect to wholesale prices, although expectations concerning consumer prices became more erratic than in the past (Figure 8).

Figure 8

Inflation

(percentages)



(1) Quarterly Forum-ME survey, all respondents — Annualized quarterly rates. — (2) Percentage change over same quarter of previous year. Data for third quarter 1985 are partially estimated.

Renewed progress in terms of disinflation occurred in the second half of the year. This was confirmed by the decline in wholesale prices in July (−0.3 per cent) and their stability in August as well as by the relatively small rise in the cost of living from June to October (averaging 0.5 per cent per month). In any case, only modest progress was made over the first eight months. The twelve-month rise in prices of manufactures remained virtually unchanged between December (9.4 per cent) and August (8.7 per cent). The general wholesale price index followed basically the same pattern, though it was about 1.5 points lower owing to smaller price rises for foodstuffs.

The twelve-month rise in consumer prices fluctuated between 9.2 and 9.5 per cent over the first eight months, putting the target of 7 per cent on average for the year practically out of reach. The prices out of line with the target figure have been public service charges as well as administered and supervised prices. On average over the first eight months these were 10 and 8 per cent higher, respectively, partially recovering from their sharp compression in 1984 (Table 5). Reflecting the essential halt in the improvement in inflation expectations, strains also emerged in the market for goods and services whose prices are not subject to any form of controls. Over the first eight months, prices for uncontrolled goods and services averaged more than 10 per cent higher than in the year-earlier period.

Table 5

Consumer prices and components subject to public control

(% changes)

	1983/1982	1984/1983	Dec.84/1984 (1)	1st qtr.'85/4th qtr.'84	Aug.'85/Dec.'84	Jan.-Aug.'85/Jan.-Aug.'84
Public tariffs....	21.6	12.4	2.4	5.7	7.1	9.9
Administered-price products	13.6	8.8	3.3	3.1	4.3	7.5
Rents	18.8	23.7	1.9	0.9	3.6	4.9
Monitored products	12.3	8.0	2.7	2.4	3.7	7.2
Uncontrolled goods and services	14.5	10.7	4.2	2.8	6.4	10.2
Consumer prices .	**14.7**	**10.8**	**3.8**	**2.9**	**5.7**	**9.3**

Source: Based on Istat data.
(1) Momentum effect on 1985.

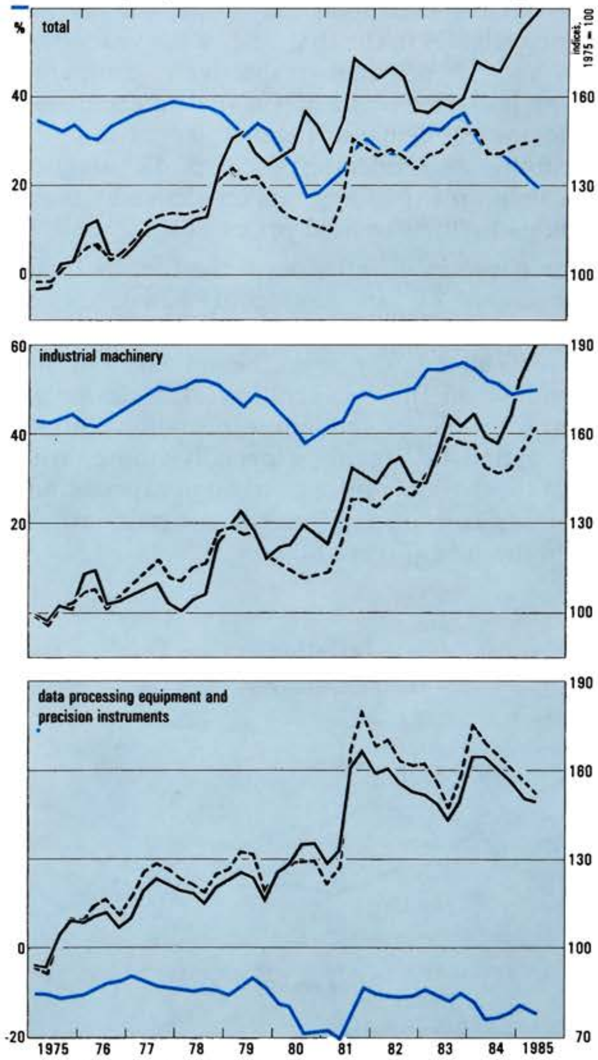
The process of capital accumulation: its degree of dependence upon external trade

The high rate of growth of investments during 1985 raises questions concerning the extent to which the progress of the Italian economy's capital accumulation process is dependent upon foreign markets. Recently elaborated data enable us to estimate over the decade 1975-1985, for the main types of plant and machinery in engineering goods and means of transport, changes in the proportion of internal demand met by imports, and changes in the propensity to export, disaggregated by economic branches. The indices used in this note are based on current prices, and thus do not permit us to evaluate the effects of changes in terms of trade.

For the whole of the investment goods in question there was a notable tendency, between 1975 and to-day, for import penetration to increase (from less than 25 per cent to around 40 per cent). Over the same period a steadily growing proportion of domestic output has been exported (from less than 40 per cent to around 55 per cent): this increase, however, has not prevented a slight adverse trend in the normalized balance of trade (the ratio between the balance of trade at current prices and the sum of imports and exports) which nonetheless remains largely active. The recovery of the process of accumulation since the end of 1983 has caused a very strong cyclical rise in the level of import penetration, without at the same time depressing the propensity to export as happened in the recovery of 1979-1980.

The aggregated data alone do not permit us to discriminate between two hypotheses: that of a growing interdependence of internal and external markets, and that of an incapacity of national producers fully to satisfy a changing pattern of demand whether it be for reasons of quantity or quality. However, a disaggregation of data for the principal categories of investment goods permits such distinctions to be made. It shows that, with the exception of motor vehicles, the higher sales abroad of Italian capital goods, which has accompanied the increased external dependence of Italy's accumulation process, has made it possible either to maintain constant, or in some branches to improve, the normalized balance of trade.

Import penetration and propensity to export (1)
(seasonally adjusted and standardized current prices)



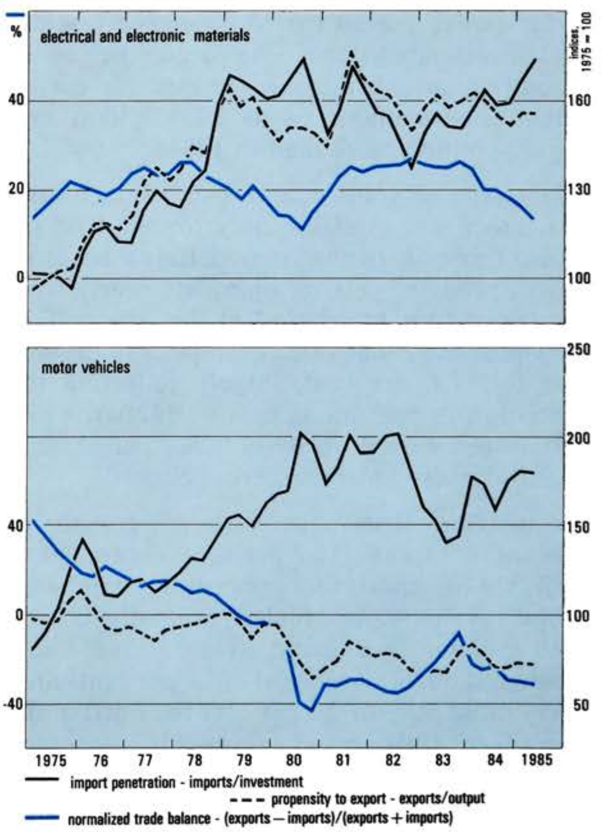
—— import penetration - imports/investment
- - - propensity to export - exports/output
—— normalized trade balance - (exports — imports)/(exports + imports)

(1) Plant, machinery and transportation equipment surveyed include industrial machinery (22.6 per cent of the total at 1970 prices in 1983), office and precision machines (21.6 per cent), electrical and electronic equipment (21.2 per cent), other metal products (2.4 per cent), motor vehicles (24.2 per cent) and other transport equipment (8.0 per cent).

For the branch of "industrial machinery", which makes up just under 23 per cent of the investment goods under consideration, the notable and continued rise in the quota of imports relative to domestic demand seems to depend mostly upon growing international specialization. This interpretation rests upon two observations. Firstly, in the three years 1981-1983 import penetration increased at the same time that domestic demand fell off and the Italian propensity to export grew at an accelerating pace. Secondly, the normalized trade balance, already markedly positive at the beginning of the decade, shows a significant tendency to increase which, aside from a temporary cyclical set-back, does not seem to have been interrupted by the recent recovery of investment growth. Further disaggregation would permit us to evaluate the long-term implications of this process, which depends upon the embodied technological progress and the expected demand growth of the particular products of this branch in which Italy is specialized.

The two branches which have been mostly affected in the past decade by technological innovation and for which the rate of increase of investment has been highest — data processing equipment and precision instruments; electric and electronic materials — showed a strong increase in import penetration up until, respectively, 1981 and 1978. This dynamic should most likely be attributed to the rapid expansion of demand for certain specific types of product which were already being supplied by foreign markets. At the same time as import penetration was growing, Italian producers were able to satisfy such a volume of foreign orders that the positive normalized trade balance was slightly improved for electric and electronic equipment, whereas for data processing and precision equipment the slightly negative balance remained unchanged from the beginning of the decade. The stability attained in the 1980s in the degree of integration between internal and foreign markets seems to be confirmed by the features of the recent cyclical recovery. In particular, the rapid expansion of imports for data processing and precision equipment, which began at the end of 1983, has produced a purely temporary increase in import penetration, since it was followed, with only a short lag, by a marked growth in domestic production.

Concerns over an excessive dependence of the accumulation process upon foreign supply seem justified by data for the motor vehicles branch (motor cars for investment, buses, lorries, trailers). The coincidence, until 1980, of a rapid increase in import penetration and a fall in the propensity to export, which brought about a transition from a positive to a negative trade balance, and the essential stability of these indicators for the following years, reveal that there are serious difficulties of domestic supply in the face of a demand that is constantly growing.



Allowing for a rise in rents of some 8 per cent in the last four months of the year (resulting primarily from automatic adjustments following the rent freeze imposed by law in 1984), and assuming a halt to the relative recovery in public service charges and administered prices as well as a modest decline in inflation rate of "free" goods and services, the year-on-year rise in prices should be about 9 per cent, while that over the twelve months to December should be about one point less.

The balance of payments on current account

In the first eight months of 1985, Italy recorded a merchandise trade deficit (cif-fob, customs data) of 16,792 billion lire, nearly 6,000 billion more than in the same period of 1984 (10,989 billion). The rate of increase of exports dropped off by about one percentage point from the year-earlier period (to 16.5 per cent), while imports accelerated (from 19.3 to 20.9 per cent). Seasonally adjusted, the average monthly deficit through August amounted to 2,091 billion lire, nearly 500 billion more than in 1984.

Data on the volume and unit value of the goods traded are available only for the first six months (Table 6). In that period Italy's terms of trade showed a deterioration of nearly two percentage points in relation to the first half of 1984. The average unit value of imports in lire was higher by 11.1 per cent, largely reflecting the depreciation of the lira against the dollar, while export values moved up by only 9.2 per cent, in line with domestic manufactures prices.

In volume terms, the rate of growth of merchandise imports (12.7 per cent) continued to exceed that of exports (8.2 per cent). The increase in import volume was fueled primarily by the growth in domestic demand. World demand also expanded, though more slowly (5.3 per cent) than the very rapid pace of 9.5 per cent recorded in the first half of 1984. In any case the continued growth of world demand helped Italy to maintain in the first half of 1985 a relatively high rate of increase in the volume of exports compared with the same period of 1984.

The competitiveness of Italian products, measured by wholesale manufactures prices (excluding oil products), worsened by 1.1 per cent against its main competitors between the first half of 1984 and the first half of 1985 (Figure 9). The lira's very sharp depreciation in real terms against the dollar (9.2 per cent) was thus not enough to offset the loss of competitiveness against its European trading partners (2.2 per cent overall), in particular the Netherlands (4.8 per cent), West Germany (4.2 per cent) and the United Kingdom (3.1 per cent). In June, notwithstanding a depreciation of the lira within the EMS in February and March, the indicator showed that Italy's intra-EEC competitiveness was inferior (by 1.5 per cent) to that in March 1983, after the last EMS realignment had occurred.

The changes in competitiveness had repercussions above all on the domestic market, where they facilitated import penetration. The more price-elastic components of Italian exports also suffered, in the face of export pricing policies

Table 6

Trade: values, volumes and main determinants

(% changes)

	1984 1st half / 1983 1st half	1985 1st half / 1984 1st half
Exports		
Value	14.9	18.0
Unit value	11.4	9.2
Volume	3.1	8.2
Imports		
Value	19.0	25.3
Unit value	11.8	11.1
Volume	6.4	12.7
Domestic demand	3.0	3.2
Capacity utilization	2.6	3.1
World demand (1)	9.5	5.3
Competitiveness (2)	−1.9	1.1
Terms of trade (3)	−0.3	−1.7

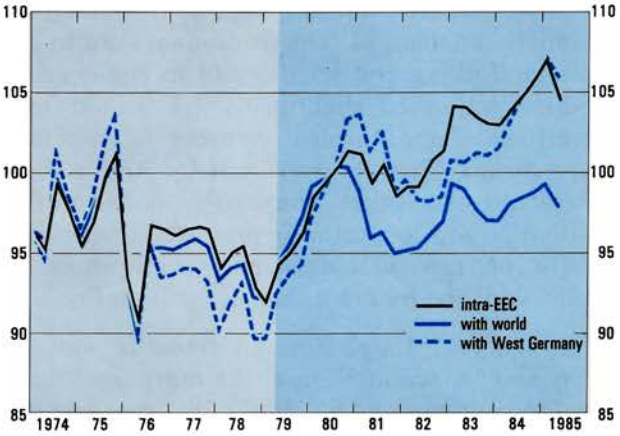
Source: Based on Istat, Isco, IMF and national sources.

(1) OECD exports of manufactures. — (2) Wholesale prices. The (−) sign indicates an improvement in competitiveness. — (3) The (−) sign indicates a deterioration in the terms of trade.

Figure 9

Real exchange rates of the lira

(wholesale price index, 1980 = 100)



designed to avoid a compression of profit margins. For some quite significant export product groups, however, such as refined petroleum products, jewellery, and office machinery, the volume of foreign sales expanded considerably more than the average.

Over the first six months of the year, Italy's merchandise trade deficit worsened by 6,800 billion lire in relation to the first half of 1984. Broken down geographically, the data show that this was the result of increased deficits with the EEC, with OPEC, and with the non-oil developing countries, compensated only in part by a reduction in the deficit with Eastern Europe and an increase in the surplus with North America (Table 7).

In Europe, the most unsatisfactory performance was in trade with West Germany, where a 27.1 per cent rise in imports far

Table 7

Foreign trade by group of countries

(billions of lire)

	Exports (fob)		Imports (cif)		Balance	
	1984 1st half	1985 1st half	1984 1st half	1985 1st half	1984 1st half	1985 1st half
Eupropean community	**27,413**	**31,701**	**29,782**	**37,977**	**– 2,369**	**– 6,276**
of which:						
Germany	9,703	10,911	10,985	13,961	– 1,282	– 3,050
France	8,643	9,901	8,613	10,572	30	– 671
United Kingdom	3,886	4,651	2,802	4,166	1,084	485
Netherlands	1,701	2,137	3,447	4,484	– 1,746	– 2,347
Belgium-Luxembourg	1,768	2,106	2,594	3,180	– 826	– 1,074
United States	**5,841**	**8,358**	**4,218**	**5,588**	**1,623**	**2,770**
Eastern Europe	**1,930**	**2,299**	**4,842**	**4,238**	**– 2,912**	**– 1,939**
of which:						
USSR	1,274	1,376	3,124	2,418	– 1,850	– 1,042
OPEC	**7,358**	**7,336**	**11,891**	**15,238**	**– 4,533**	**– 7,902**
of which:						
Libya	1,356	1,332	2,461	3,479	– 1,105	– 2,147
Algeria	653	832	1,542	2,478	– 889	– 1,646
Nigeria	265	340	1,153	1,945	– 888	– 1,605
Other	**16,856**	**20,457**	**18,800**	**24,050**	**– 1,944**	**– 3,593**
Total	**59,398**	**70,151**	**69,533**	**87,091**	**– 10,135**	**– 16,940**

Source: Istat.
N.B.: Rounding may cause discrepancies in totals.

outstripped the 12.5 per cent gain in exports, owing chiefly to adverse movements in relative demand pressures. The result was a deficit of 3,050 billion lire, nearly triple the year-earlier figure. In trade with OPEC, the deficits with Libya, Algeria, and Nigeria continued to widen rapidly: these three nations accounted for two thirds of Italy's overall trade deficit with OPEC and for three quarters of the deficit's increase between the first half of 1984 and the first half of 1985. The contraction of the deficit with Eastern Europe was due entirely to a decline in crude oil imports from the Soviet Union; indeed, the pressing need to make up for this decline explains part of the increased deficit with OPEC. The expansion of exports to the United States continued, given substantial impetus by the strength of the dollar, but the pace dropped off to 43.1 per cent from the extraordinary increase of 60 per cent recorded in the first half of 1984, when American domestic demand was advancing at equally exceptional rates. There was also a notable increase in imports, bringing the US share of Italy's total foreign trade to 10 per cent and making the United States Italy's third leading trading partner, behind West Germany and France.

Disaggregating Italy's foreign trade by product groups (Table 8) shows that the worsening of the deficit was ascribable largely to energy and food products. Among the other major product groups, a deterioration was also recorded by transport equipment, chiefly because of a considerable rise in the number of cars imported while those exported remained essentially unchanged. The traditional surplus on trade in clothing and textiles and in engineering products improved slightly, by 1.7 trillion lire. Nevertheless, the surplus in these two sectors covered just slightly over half of the deficit generated by the other groups. The deficit on the residual group of "other" products, consisting chiefly of raw materials and semi-processed goods, widened by more than 1.0 trillion lire.

Looking at Italy's foreign trade in volume terms and by economic use, the most significant development over the first half of the year was the high level of final consumer goods imports (31 per cent above the first-half 1984 figure, according to Istat data). This was the result of increased private consumption and of stock-building, combined with the improved competitiveness of foreign products and the greater price elasticity of demand for this type of goods. Continuing industrial restructuring kept the increase in imports of final investment goods at a high level (11 per cent).

Table 8

Foreign trade by product groups

(billions of lire)

	Exports (fob)		Imports (cif)		Balance	
	1984 Jan.-Aug.	1985 Jan.-Aug.	1984 Jan.-Aug.	1985 Jan.-Aug.	1984 Jan.-Aug.	1985 Jan.-Aug.
Energy sources	4,200	5,078	27,741	30,756	−23,541	−25,678
Foodstuffs	4,570	6,126	9,128	13,142	−4,558	−6,926
Textiles and clothing	14,517	17,011	4,042	5,123	10,475	11,888
Basic metals	6,839	8,131	7,585	8,512	−746	−381
Chemicals	6,859	7,844	9,728	11,521	−2,869	−3,677
Machinery	20,819	24,188	11,285	14,321	9,534	9,867
Transportation equipment	8,263	9,013	7,428	9,734	835	−721
Other	14,503	16,409	14,622	17,573	−119	−1,164
Total . . .	**80,570**	**93,890**	**91,559**	**110,682**	**−10,989**	**−16,792**

Source: Istat.
N.B.: Rounding may cause discrepancies in totals.

The balance of payments on a settlements basis (Table a18) shows a significant increase in the surplus on "foreign travel" over the first five months compared with January-May 1984 (from 3,262 to 3,765 billion lire), an upward trend that is observable in the seasonally adjusted data as well. The increase in gross receipts (17.8 per cent) was much greater than that in domestic prices for the services concerned (11.9 per cent), thanks to an increase both in the number of overnight stays and in expenditure per tourist. At the same time, however, spending by Italian tourists abroad also rose substantially, from 1,163 to 1,448 billion lire.

Net payments on "capital income" continued to expand. In the first five months these came to 3,769 billion lire, compared with 6,855 billion for the whole of 1984.

Capital movements and the exchange rate

The data for the first half of the year, still incomplete and provisional, indicate a strengthening of the overall tendency towards net inflows of medium and long-term capital that emerged in the latter part of 1984. Specifically, portfolio investment gave rise to a net inflow of 2,591 billion lire, compared with a modest net outflow in the first half of 1984. This development is traceable almost exclusively to foreign capital: new foreign investment in Italy doubled over the year, totalling 5,653 billion lire in the period January-June 1985, nearly two thirds of it being in government securities. At the same time, disinvestment amounted to 2,796 billion lire, not much more than that recorded a year earlier. Foreign capital continues to be attracted to the Italian financial market by large differentials in nominal yield between comparable Italian and foreign assets. Recent developments in the capital market, with the consolidation of the recovery in profits for listed firms and the effects of the emergence of new intermediaries, have attracted the interest of foreign investors, inducing them rapidly to diversify their share portfolios into Italian companies.

Foreign loans provided a net inflow of some 3.0 trillion lire, as against 2.5 trillion in the first half of 1984. While the net inflow remained virtually unchanged for the public sector, in the private sector there was a sharp reversal of the pattern, the balance shifting from a net outflow of 700 billion in January-June 1984 to a net inflow of 1.0 trillion in the first six months of this year. A further stimulus to foreign borrowing, market conditions remaining the same, could stem from the June decision to increase the amount of short and medium term financial loans from other OECD (and, even more so, EEC) countries Italian residents can contract without authorization.

Some provisional indications with regard to the balance of commercial credits in the first part of the year can be derived from a comparison of the customs data and the data for trade on a settlement basis. This suggests that, with trade continuing to grow considerably and with the possibility of further foreign exchange borrowing from the banking system being curtailed, Italian importers had greater recourse to supplier's credits. By contrast, commercial credits granted to foreigners by Italian exporters appear not to have changed substantially since early 1984. Overall, therefore, this item should be in sizable surplus.

The persistence of market conditions generally favourable to the assumption of short-term external debt has continued to tempt banks to exceed the ceiling on net foreign debt set last year. New statistical surveys in April and March revealed that this overshooting was very substantial, but it was virtually eliminated in the months following.

Balance-of-payments figures on a settlements basis are available for the current account plus non-bank capital movements through September. The balance showed an overall deficit of 4,831 billion lire, about 3,700 billion more than in the first nine months of 1984. The wider deficit is presumably the result of a larger deficit on current account, which was not fully offset by the increase in net inflow of capital. Movements of bank funds were essentially in balance for the period, so that the deficit was translated almost entirely into a loss of official reserves, which diminished by 4,734 billion lire (net of adjustments relating to exchange rates and the valuation of gold).

From the beginning of the year to 18 October the nominal effective exchange rate of the lira depreciated by 3 per cent, the resultant of a loss in

Recent exchange measures

Consistent with the current policy of progressive liberalization of foreign exchange controls, the government decree of 16.10.1985, signed by the Minister of Foreign Trade together with the Minister of the Treasury, has adopted the following measures:

1) *the ceiling below which the foreign currency financing of advance payments for imports is not obligatory is increased from 5 to 10 million lire;*
2) *the obligation to partially finance in foreign currency those exports involving deferred payments is abolished;*
3) *the proportion of non-interest-bearing deposits that must be held in relation to investment abroad is reduced to 25 per cent, and "direct" investments are exempted from the deposit;*
4) *holders of foreign currency accounts are given the right to convert accredited foreign currency holdings into other currencies, within the terms allowed by such accounts;*
5) *the ban on the transfer between residents of unexpired credits vis-à-vis non-residents arising in connection with authorized operations is abolished;*
6) *the use of credit cards for acquiring consumer goods abroad, within the limits of foreign currency allowance, is permitted.*

Moreover, the Italian Exchange Office has approved several modifications of the constraints on the range of foreign currency operations banks can make:

1) *in balancing their overall foreign exchange position banks are no longer required to balance their foreign exchange market operations by groups of currencies; their foreign currency cash holdings are to be excluded from the calculation;*
2) *the ceiling on "spot against forward" operations is increased from 1,030 to 1,600 billion lire.*

value of 9.3 per cent against the other EEC currencies partly offset by an appreciation of 9.6 per cent against the dollar. The movement of the lira within the EMS — after the declines of February and March, accompanied by an outflow of official reserves of more than 5 trillion lire — was confined to the lower part of its band for the next three months. In July, the emergence of a new phase of weakness for the dollar helped create propitious conditions for a realignment of the lira's central parities within the EMS. The still unfavourable competitive position with respect to other European countries and the rapid widening of the trade deficit pointed to the conclusion that the time was ripe for a partial recovery of some room for manoeuvre in exchange rate policy. Prolonged postponement of this initiative would have engendered fundamental disequilibria, undoing the benefits of the non-accommodating policy pursued in years past. Moreover, even a few months' delay would have shifted the devaluation to a time seasonally unfavourable in balance-of-payments terms; and, in all likelihood, in concomitance with stronger expectations of a depreciation of the lira on European markets, such a delay could have caused huge reserve losses. In the two months following the realignment, the lira remained above the narrow band of fluctuation. In late September, in conjunction with the dollar's depreciation following the accord reached by the five leading industrial powers, the lira slipped below the upper margin of the narrow band.

Official reserves, which amounted to 81,813 billion lire at the end of 1984, reached a level of 82,405 billion in June before falling back to 77,510 billion in September. Net reserves, excluding gold, amounted on those dates to 40,115 billion, 40,123 billion and 36,870 billion respectively.

Public finances

The increase in the public deficit over the first nine months of 1985 was particularly large, owing both to the public sector's underlying expansionary trend and to the approval in the early months of the year of several measures increasing expenditure. The growth in the deficit was only marginally curbed by the effects of the Finance Law and the other measures approved in the last part of 1984. Consequently, the state sector borrowing requirement increased by 30 per cent compared with the first three quarters of 1984 to 83 trillion lire, including settlements in cash of past debts amounting to 2,000 billion lire (Table 9).

Table 9

Borrowing requirements

(billions of lire)

	1983	1984	1985 (1)
State sector			
1st half	34,571	38,286	55,700
	(34,571)	(38,286)	(53,505)
January-September	63,150	63,669	88,140
	(63,150)	(63,669)	(83,007)
Public sector			
1st half	34,393	41,189	55,510

(1) Provisional figures. Gross of settlements of past debts (in brackets the amounts net of the payments made in securities and gross of those made in cash).

The deficits in the public accounts, which became larger in relation to GDP (Table 10), again fuelled the growth in households' disposable incomes. They also gave rise to a substantial increase in interest payments and also in the public debt, which by the end of the year will equal the gross domestic product.

The borrowing requirement was even larger (88.14 trillion lire through September) when account is taken of the payments in securities of the debts with the banking system of the dissolved health insurance institutes and the local health units. These operations are expected to account for more than 10 trillion lire of the total borrowing requirement for the year.

Table 10

Public finance balances

(billions of lire)

	1983	1984	1985 (1)
State sector:			
Borrowing requirement (net of the settlement of past debts)	88,604	95,351	106,700
as a % of GDP	(16.4)	(15.6)	(15.7)
Payments in cash	—	—	2,000
Payments in securities	—	—	10,485
Total borrowing requirement	88,604	95,351	119,185
as a % of GDP	(16.4)	(15.6)	(17.5)
Total borrowing requirements net of debt interest	41,276	37,758	56,875
as a % of GDP	(7.7)	(6.2)	(8.4)
Public sector: (2)			
Total borrowing requirement	91,525	102,471	119,000
as a % of GDP	(17.0)	(16.7)	(17.5)
Total borrowing requirement net of debt interest	41,680	42,136	51,500
as a % of GDP	(7.7)	(6.9)	(7.6)
General government:			
Current deficit	33,942	41,669	48,600
as a % of GDP	(6.3)	(6.8)	(7.2)
Total deficit	66,704	82,895	93,200
as a % of GDP	(12.4)	(13.5)	(13.7)
Total deficit net of debt interest	18,106	23,926	27,700
as a % of GDP	(3.4)	(3.9)	(4.1)

(1) Estimates: the figures for the state sector are the official forecasts published in the latest quarterly report of the Treasury Minister to Parliament, those for the other aggregates are consistent with the above state sector forecasts. — (2) The estimate of the total public sector borrowing requirement for 1985 includes the settlement of past debts amounting to 7,350 billion lire, which differs from the figure for the state sector since only the settlements that do not replace bank loans already recorded in the borrowing requirements of previous years affect the public sector.

The faster growth in the borrowing requirement was accompanied by a relative decline in sales of securities, which covered 81 per cent of the borrowing requirement in the first nine months of the year, as against 87 per cent in the corresponding period of 1984. On the other hand, central bank financing of the Treasury increased (Figure 10); in particular, the unutilized portion of the Treasury's overdraft facility came close to zero on several occasions.

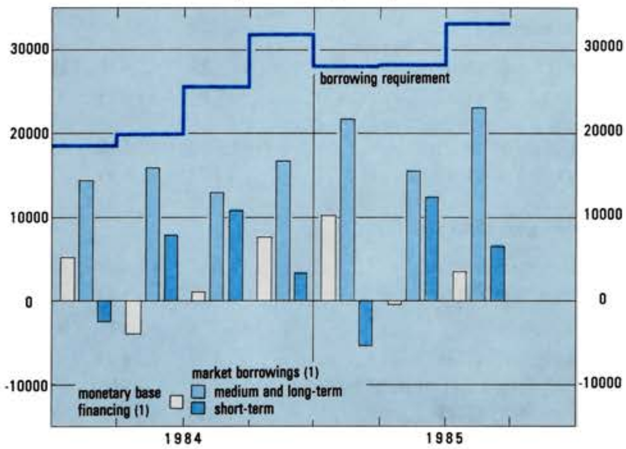
* * *

A reduction in the borrowing requirement in the last few months of the year is likely compared with the last quarter of 1984, when it was particularly high. This will primarily be due to the receipts from the building offences condonation (Law 47/1985 and Law 298/1985) and the fiscal measures introduced by Decree Law 356 of 22.7.1985 (which expired and was then re-submitted to Parliament), and to the reduction in interest expenditure as a result of the switch from 6 to 12-monthly coupons on the Treasury credit certificates issued in the first six months of 1985.

Figure 10

State sector borrowing requirement and its financing

(billions of lire)



(1) Excluding Post Office deposits.

The quarterly report submitted to Parliament by the Treasury Minister on 26 September indicated a state sector borrowing requirement of 106.7 trillion lire for 1985, substantially in excess of the targets fixed earlier (96.3 trillion in September 1984 and 99.9 trillion in February of this year). Moreover, even this estimate risks being exceeded (above all owing to the uncertainty surrounding the receipts from the building offences condonation and the measures to accelerate the payment of social security contributions).

The overshoot of the borrowing requirement compared with the 99.9 trillion lira target can be attributed both to an overestimate of non-tax revenues and to an underestimate of expenditure. By contrast, tax revenues are expected to exceed the original objective, even though most of the planned increases in taxation (amounting to 5 trillion lire) were not implemented. The revenues from some important taxes (the flat-rate withholding tax on interest, IRPEG, ILOR, and self-assessed IRPEF) were well above the original estimates. As for non-tax revenues, it is worth noting that the receipts from the building offences condonation will fall short of the original estimate owing to the time its implementation has taken. The expenditure overshoot stems from debt interest and transfers to households and non-state public bodies. Specifically, the net outlays to INPS are likely to be 2.5 trillion lire more than the forecast made at the beginning of the year, itself 6 trillion lire above the 22.5 trillion lira ceiling fixed by the Finance Law for 1985.

State sector expenditure and revenues

Disbursements by the state sector in the first six months of 1985 were 20 per cent up on the corresponding period in 1984 and amounted to 162.73 trillion lire (including the payments in cash of local health unit debts amounting to 1.77 trillion). When assessing this development, which can be attributed entirely to current expenditure, it is worth noting that the effects of some measures designed to reduce the drawings on the Treasury of non-state public bodies were concentrated in the first half of 1984. During this period the bodies in question financed part of their expenditure by running down their bank deposits by about 1.4 trillion lire. In the same period of 1985, partly owing to the time required to implement the provisions regarding the centralized Treasury account, these bodies' bank deposits rose by around 300 billion lire. A similar effect on withdrawals from the Treasury was obtained in the first half of 1984 with the provision that transferred part of the local health units' arrears to the banking system and therefore slowed down their disbursements.

One expenditure item that has recorded substantial growth is social services: the improvements in some categories of pensions recently approved (Laws 140 and 141 of April 1985), together with the related back payments, have come on top of a trend growth in social services in excess of the limit set for the rise in current expenditure (7 per cent, the same as for the increase in prices). In particular, in the first part of the year the normal revaluations were supplemented by the balance between the amounts paid in 1984 in connection with the *scala mobile* and the amounts actually due plus the advances on the improvements introduced by the above-mentioned laws. Owing to these factors and to the slowdown in the rate of growth in social security contributions, which had been swollen the year before by the social security condonation, the state sector's net disbursements to INPS in the first half of this year jumped by 64 per cent compared with the first half of 1984. The expenditure on retired civil servants also expanded significantly (13 per cent), primarily as a result of the increases granted to this category by Law 142/1985 with the aim of diminishing some of the inconsistencies in the treatment of pensioners with different retirement dates.

By contrast, wages and salaries net of withheld taxes rose by 7 per cent in the first half of 1985, in view of the smaller increases under the 1982-84 wage agreement compared with the same period of 1984. The increase paid in January entailed a rise in gross earnings of the order of 1 per cent.

Interest expenditure net of reimbursements by the Bank of Italy expanded by 16 per cent in the first half of the year compared with the first six months of 1984. The growth was in the medium and long-term segment and primarily involved Treasury credit certificates (the interest payments on which rose by 28 per cent), while the interest payments on Treasury bills dropped by 3 per cent. In the second part of the year these expenditures should grow more slowly, since the issue of Treasury credit certificates with annual coupons since January will postpone interest amounting to around 3.8 trillion lire to next year.

The outlays of a financial nature recorded a downturn. In particular those for the acquisition of participations and additions to public enterprises' endowment funds dropped from 6.74 to 4.95 trillion lire, both because nearly all the 1984 outlays were bunched in the first half of the year and because the latest forecasts for this year indicate a total of 6.5 trillion lire, which is 870 billion less than last year's.

Transfers to local authorities went up by 38 per cent. This, however, cannot be taken to reflect a similar increase in their expenditure since, as explained at the beginning of this section, special factors curbed their withdrawals from the Treasury in 1984. In particular, transfers to the regions in the first half-year rose from 22.86 trillion lire in 1984 to 29.46 trillion in 1985, an increase of 29 per cent (including settlements of past debts). This was primarily due to the above-mentioned provisions regarding local health units' arrears. The disbursements to municipalities and provinces amounted to 12.98 trillion lire, an even larger increase (57 per cent), which reflected the results of the measures regarding the non-state public bodies' cash management.

As regards the distribution of expenditure by purpose, which is only available for the state budget, there was a large increase in expenditure of a social nature (up 54 per cent compared with the first half of 1984) and a reduction in the share of total expenditure of that of an economic nature (which also declined in absolute terms) and in those attributable to the repayment of loans and unclassifiable items (primarily debt interest).

Budget fiscal revenues (net of the VAT for reimbursements and accruing to the EEC) amounted to 70.02 trillion lire in the first six months of 1985, with both direct and indirect taxes rising by around 4 per cent compared with the corresponding period of 1984. This apparently very small increase in tax revenues reflected delays in payments and a series of administrative and accounting factors. The provisional figures for the first nine months, which are only affected by some of the above factors, show a much larger increase (11 per cent). The outlook for the whole year is thus more promising than the forecasts in the revision of the budget.

The limited growth in direct taxes between the first half of 1984 and the first half of 1985 (when they totalled 36.66 and 38.26 trillion lire respectively) can be attributed not only to the progressive drying up of the condonation revenues (nearly 900 billion lire less) but also to the very large fall in the flat-rate withholding tax on interest from 5.75 to 1.89 trillion lire. Part of this fall was due to the postponement of the payment by credit institutions of the first 1985 instalment to the beginning of July (with a resulting loss in revenues of around 2.9 trillion lire). Another part was caused by the reduction in the balance for bank deposit interest paid by credit institutions at the beginning of the year (750 billion lire as against 2.1 trillion in 1984). This was primarily due to the increase by law in the instalments payable in 1984, which had involved larger advance payments than would be produced by the higher rates of taxation alone. The revenues from this tax are nonetheless expected to rise slightly above the official forecast, with a total for the year of 14 trillion lire. This is less than last year's total, a result that is partly attributable to the effects of the fall in interest rates between 1983 and 1984.

In the early months of this year the revenues provided by the instalments paid on IRPEF, IRPEG and ILOR and the related surtax dropped from 2.57 to 1.1 trillion lire. These amounts are accounting residuals from the payments taxpayers made in November 1984. Their reduction compared with the previous year is primarily the result of the faster rate at which payments were recorded.

By contrast, there was a very substantial rise in the IRPEF withheld on employee wages and salaries (+23 per cent) and self-employed earnings (+28 per cent), though this development was considerably influenced by timing in the recording of tax revenues. The data provided by the Ministry of Finance on tax collection indicate that the growth in the tax withheld on employee wages and salaries is less than shown above (around 10 per cent); that in the withholding tax on self-employed earnings was also less, but remains substantial (around 19 per cent). The increase of around 10 per cent in private sector earnings in the first half of the year suggests, in view of the income elasticity of the tax, that a growth in the withholding tax on employees of around 17 per cent is plausible.

The amount of self-assessed taxes received exceeded the official forecasts. Through September of this year they totalled 12.07 trillion lire, as against 8.43 trillion in 1984 (up 43 per cent). As regards the category of legal persons, this result is to be attributed to the improvement in gross profits recorded last year and, as regards physical persons, it reflected not only the increase in the incomes of proprietorships and partnerships but also the raising of the property register coefficients. The yield on the ILOR paid by physical persons was also affected by the ending of the relief granted when SOCOF was introduced.

The high level of self-assessment revenues, which necessarily imply substantial instalment payments in November, suggest that total direct revenues will amount to nearly 100 trillion lire in 1985, compared with 88.15 trillion in 1984.

Among indirect taxes, the revenues from those on business increased by 4 per cent to 21.30 trillion lire (these figures rise to respectively 8 per cent and 32.28 trillion if the VAT for reimbursements and accruing to the EEC is included). Data through June published by the Ministry of Finance show that while the yield from registration taxes and stamp duties were virtually unchanged, there were increases in radio and television licence receipts (up 31 per cent) and vehicle registration fees (up 11 per cent).

The same data show VAT as having risen by 9 per cent (gross of the amounts for reimbursements and accruing to the EEC). Specifically, that on imports went up by 7 per cent and the domestic component by 11 per cent. If account is taken of the amounts assessed at customs but not collected, the growth in the former was 12 per cent. The domestic VAT result suggests that the measure permitting the conventional assessment of VAT for small taxpayers who choose to keep simplified accounts has not yet contributed very much to higher revenues. In particular, the first payment under the new system, the May quarterly instalment, rose by 11 per cent, i.e. by no more than the rate recorded for the first six months.

The August payment, by contrast, recorded a larger increase, of around 20 per cent. It needs to be noted, however, that the merging of VAT rates included in the law introducing conventional assessment has reduced the difference between the rates on sales and purchases for many taxpayers, with a consequent reduction in reimbursements (which, in fact, increased by only 4 per cent in total) and, of course, in gross revenues. It is also likely that many taxpayers will have started to deduct the tax credits they had accumulated in the past. These revenue limiting factors, which cannot be quantified at present, have probably outweighed the benefits accruing to the government from conventional assessment.

As regards the other indirect taxes, administrative delays appear to have prevented the revenues from monopoly products (up by 5 per cent) from fully reflecting the 8 per cent increase in tobacco prices imposed last December, while those from oil products (up by 6 per cent) were depressed by low petrol consumption.

If present trends are maintained over the next few months, indirect taxes (net of the VAT for reimbursements and accruing to the EEC) should total 73 trillion lire (as against 67.64 trillion in 1984).

The total tax revenues of the state sector (including the accounting operations involving the special statute regions for a similar amount to last year's) should exceed 175 billion lire on a cash basis, with an increase that is in line with the forecast growth in GDP.

Money and financial markets

Monetary policy

Domestic credit to the non-state sector expanded moderately in the first eight months of 1985, continuing the slowdown that started after the corrective moves undertaken in the summer and autumn of 1984 (Table 11). On an annual basis the growth rate was slightly above 9 per cent, approximately six points less than in 1984 and below the targeted rate of 12 per cent. By contrast with recent years, the slackening in the pace of credit expansion was attributable in equal measure to the banks (whose lending grew by 10.6 per cent through August, as against 17.6 per cent during 1984 as a whole) and to the special credit institutions (which recorded corresponding rates of 7.2 and 13.3 per cent respectively). These results reflect a slowing down in lending to firms, which benefited, however, from larger inflows of foreign capital and increased issues of shares.

Table 11

Total domestic credit

(seasonally adjusted, annualized % changes)

	1984		1985
	Year	Jan.-Aug.	Jan.-Aug.
Bank lending (1)	17.6	20.8	10.6
Special credit institution lending	13.3	9.9	7.2
Net bond issues	8.9	9.0	6.9
Non-state sector financing (1)	15.5	16.2	9.2
State sector domestic borrowing requiremet (2) .	22.8	20.0	21.6
Total domestic credit (1)	19.6	18.4	16.3

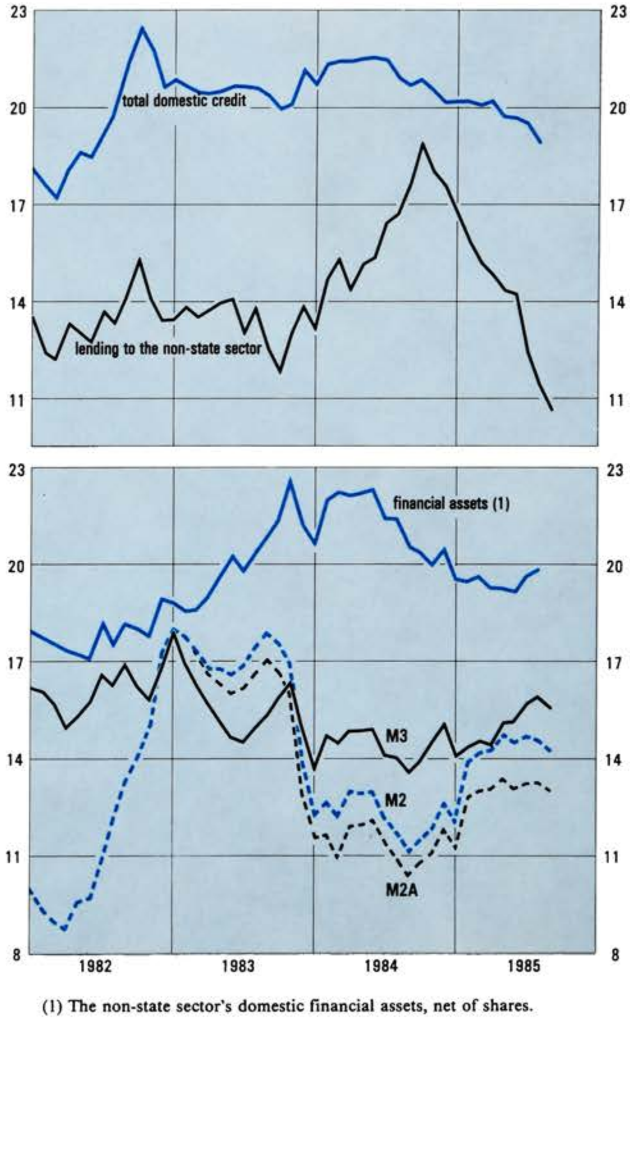
(1) Corrected for exchange rate variations, the settlement of past debts and the distortions connected with the abolition of the ceiling on bank lending. — (2) Net of contributions to the endowment funds of financial intermediaries and the settlement of past debts.

The effect on total domestic credit of the slower growth in lending to the non-state sector was more than offset by a sharp increase in the indebtedness of the state sector (at an annual rate of 21.6 per cent through August). As a result, total domestic credit expanded in the first eight months of the year at an annual rate of 16.3 per cent, compared with the targeted rate of 16.1 per cent.

Figure 11

Total domestic credit, lending to the non-state sector and financial assets

(twelve-month % changes)



(1) The non-state sector's domestic financial assets, net of shares.

This expansion in credit found its counterpart in an increase in the private sector's financial assets. In the four years from 1981 to 1984 the average annual growth in financial assets amounted to 19.5 per cent (Figure 11), compared with 16 per cent for GDP; and within the total flow of financial assets the money supply (M2) grew at a rate of 13.1 per cent. In the first eight months of this year the growth rates of total financial assets and M2 were 19.6 and 15 per cent respectively, and therefore a further reduction in the share of money in the total stock of financial assets (Table 12) was achieved.

Table 12

Financial assets of the private sector

(% composition; seasonally adjusted data)

	Stocks		Flows	
	1984 Dec.	1985 Aug.	1984	1985 Jan.-Aug.
Money supply (M2).....	62.0	60.0	41.4	46.4
of which: bank deposits	50.6	48.9	34.4	36.2
Treasury bills and acceptances......	16.0	14.9	18.1	6.2
Medium-term securities .	19.1	21.0	36.1	34.7
Investment fund units ...	0.2	1.4	0.9	11.2
Other	2.7	2.7	3.5	1.5
Total ...	100.0	100.0	100.0	100.0

The growth in the money supply fluctuated widely through August 1985. In the early months of the year it was boosted by the insufficient supply of government securities to the secondary market — the result, as explained in the previous issue of the Bollettino Economico, of a tax measure approved in November 1984. The excess demand for securities was not met in the primary market, owing to the fact that public issues were modest in relation to the government's borrowing requirement. Instead, it flowed partly into bank certificates of deposit, which are considered to be a good substitute for securities. The growth in the volume of CDs, included in M2, prompted the calculation of a new monetary aggregate, M2A, which excludes them and brings together instruments that are homogeneous in terms of liquidity (see the article on p. 51).

The faster growth in the monetary aggregates resulted in part from the state-sector borrowing requirement, which in the first four months of 1985 continued the strong increase registered in the latter months of 1984. To have kept the growth of the money supply on the planned path would have meant raising interest rates so as to shift the composition of the larger quantity of financial assets — created to meet the larger borrowing requirement — in favour of securities. Such action would have been inopportune at a time when lending to the non-state sector was well within target and when it was plausibly expected that the overshoot of the state-sector deficit would prove to be temporary; in fact, the official forecast, revised only in February, had indicated limited growth in relation to 1984.

Table 13

Monetary aggregates

(annualized % changes) (1)

	1984	1985		
	year	Jan.-Apr.	May-Aug. (2)	Jan.-Aug. (2)
Bank reserves (3)	14.0 (12.2)	11.1 (14.7)	11.7	11.4 (13.2)
Monetary base (3)	12.5 (11.4)	10.6 (12.9)	13.9	12.3 (13.4)
Money supply (M2)....	12.1	17.8	12.3	15.0
of which: bank deposits	*12.0*	*17.8*	*11.1*	*14.4*
Money supply net of CDs (M2A)..........	11.2	16.7	11.8	14.2

(1) Seasonally adjusted. — (2) Provisional data. — (3) Corrected for the change in the compulsory reserve ratio. The figures in brackets are corrected for the anomalous increase in banks' holdings of cash at end-December 1984.

Subsequently, since the borrowing requirement failed to fall back to the forecast level, and given that a fast growth in the money supply was unacceptable beyond the short term, the yields on government securities were raised in the middle of April by nearly a point. This, together with the reduction in deposit rates, widened the yield differential between government securities and bank deposits, and initiated a process that helped to curb the growth in the monetary aggregates. Compared with 18 per cent in January-April, the annual growth rate of M2 dropped to 12 per cent in May-August (Table 13). There was also a sharp deceleration in

M2A, which, as explained above, excludes CDs. The growth rate of this aggregate fell from 16.7 to 11.8 per cent between the first and second four-month periods. Over the first eight months M2A expanded by 14.2 per cent, nearly one point less than the broader aggregate. The policy of curbing monetary expansion was also implemented through increasingly tight control over bank reserves. These rose at an annual rate of 14.7 per cent in January-April (after adjusting for the anomalous rise in banks' cash holdings in December 1984). In May-August the rate was down to 11.7 per cent. To control liquidity, the Bank of Italy sold securities outright in the secondary market for over 6 trillion lire, 3.9 trillion more than during the first nine months of 1984. To the same end it also made gross temporary sales (Repos) amounting to over 27 trillion lire, as against 4.6 trillion in the same period of 1984. Overall, therefore, the Bank returned to being a net seller in the secondary market, absorbing about 4.7 trillion lire of liquidity.

Table 14

Monetary base

(changes in billions of lire)

	1983	1984		1985
	year	year	Jan.-Sept.	Jan.-Sept.
Sources				
Foreign sector.....	8,840	5,141	3,061	−4,812
Treasury	4,514	10,028	2,389	13,226
Borrowing requirement ...	*88,604*	*95,351*	*63,669*	*88,140*
Placement of securities ...	*−74,789*	*−75,410*	*−57,066*	*−71,652*
Other sectors	*−9,301*	*−9,913*	*−4,214*	*−3,262*
Refinancing	−3	−218	−210	1,968
Other sectors......	−747	−1,104	−1,110	−2,757
Total	**12,604**	**13,847**	**4,130**	**7,625**
Uses				
Non-state sector ...	4,081	3,861	−544	67
Bank reserves	8,523	9,986	4,674	7,558

In the nine months through September the monetary base increased by 12.7 per cent, reflecting a pronounced slowdown after an acceleration in the early months of the year that in May reached a peak of 17.3 per cent. In absolute terms the expansion, concentrated in the first five months, amounted to around 7.6 trillion lire (Table 14), nearly 3.5 trillion more than in the same period of 1984. Foreign transactions, which had produced a 3 trillion lire inflow of reserves in the first three quarters of 1984, led to an outflow of 4.8 trillion. The Treasury created monetary base in the amount of 13.2 trillion lire, the refinancing of banks added another 2 trillion, while "other sectors" absorbed 2.8 trillion.

The credit and financial markets

The financing needs of the state sector dominated developments in the financial markets in the first eight months of the year, which saw very large issues of government paper. If the securities serving to extinguish credit institutions' tax credits are included, the issues totalled 73 trillion lire, compared with 50.9 trillion in the same period last year (Table 15). The pressure put by the state-sector borrowing requirement on financial savings appears even greater when net funding is considered, i.e. the excess of net issues over current debt interest payments. Through August 1985 this aggregate amounted to 34.5 trillion lire, as against 15.8 trillion in the corresponding period last year.

Table 15

Government securities (1)

(billions of lire)

	Gross issues	Dis-counts	Coupons	Redemp-tions	Net proceeds
			Treasury bills		
1984 Jan.-Aug. .	151,500	14,698	—	146,180	−9,378
1985 Jan.-Aug. .	175,528	14,635	—	159,859	1,034
			Treasury credit certificates		
1984 Jan.-Aug. .	64,250	184	15,942	23,750	24,374
1985 Jan.-Aug. .	64,443	1,043	18,725	17,100	27,575
			Treasury bonds		
1984 Jan.-Aug. .	14,750	117	2,820	6,650	5,163
1985 Jan.-Aug. .	12,500	200	3,739	8,000	561
			Other		
1984 Jan.-Aug. .	956	—	1,686	3,676	−4,406
1985 Jan.-Aug. .	9,593	—	1,363	2,909	5,321

(1) The 1985 figures include the securities issued to extinguish bank's tax credits and settle the remaining debts of the previously suppressed health insurance institutions.

Table 16

Treasury bond and credit certificate issue conditions

(billions of lire; percentages)

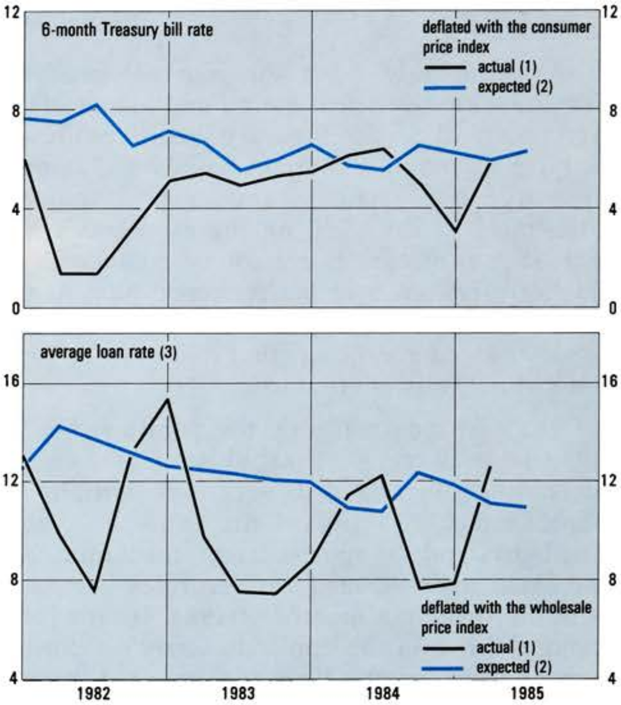
	Amount placed	Price	Coupon (1) (2)	Spread (2)	Annual yield (3)
			2-year Treasury bonds		
1985 — Jan. ...	4,000	99.00	6.25	—	13.51
			3-year Treasury bonds		
1985 — Feb. ..	2,000	99.00	6.00	—	12.79
Mar. ..	1,000	99.00	6.00	—	12.79
May ..	3,000	97.75	6.125	—	13.62
July ...	2,500	97.75	6.125	—	14.00
Oct. ...	6,000	97.50	6.25	—	14.00
			5-year Treasury credit certificates		
1985 — July ...	3,000	99.75	7.00	0.3	14.65
Aug. ..	1,750	99.75	7.00	0.3	14.74
Sept. ..	3,700	99.75	7.00	0.3	14.75
Oct. ...	1,500	99.75	6.80	0.3	14.32
			7-year Treasury credit certificates		
1985 — Jan. ...	7,500	99.75	15.60	1	15.73
Feb. ..	5,500	99.75	14.30	0.75	14.47
			10-year Treasury credit certificates		
1985 — Feb. ..	6,000	99.75	14.50	1	14.71
Mar. ..	12,249	97.50	13.80	0.5	14.32
Apr. ..	8,847	97.50	13.80	0.5	14.36
May ..	8,000	97.50	14.40	0.5	14.97
June ..	5,000	97.50	14.40	0.5	14.93
July ...	3,347	98.50	14.40	0.75	14.94
Aug. ..	3,250	97.50	14.60	0.75	15.22
Sept. ..	6,000	97.50	14.60	0.75	15.26
Oct. ...	9,000	98.00	14.60	0.75	14.82

(1) The first coupon on Treasury credit certificates. — (2) The coupons and the spreads are 6-monthly, except for those on the 7 and 10-year Treasury credit certificates which are annual. — (3) The values for Treasury credit certificates are thsoe expected in the month the first coupon falls due with the assumption that interest rates do not change in the intervening period.

Notwithstanding these demands on the market, yields fell by nearly one percentage point over the first eight months of the year. In the first half of the year the real rate of interest on 6-month Treasury bills, based on the effective inflation rate, was below the 1984 average (Figure 12). At the same time the average maturity of the public debt was further lengthened to three years and four months at end-August, compared with two years and six months at end-1984.

Figure 12

Real interest rates (*)



(*) Estimated values of interest rates net of inflation: yields refer to the six months following. — (1) The deflator is the effective change in prices over the six months following the observation period on an annual basis. — (2) The deflator is the expected change in prices calculated by the Bank of Italy on *Mondo Economico* data (the average of the six months preceding the observation). — (3) The nominal rate on lira loans is provided by the Bank of Italy Central Risks Office. The 1984 and 1985 figures are adjusted for the effects of the increase in the loan reporting limit from 50 to 80 milion lire in February.

In September and the first half of October the decline in the yields on both Treasury bills and Treasury credit certificates continued, but expectations of further decreases have sustained the demand for government securities.

In the first eight months of 1985 floating rate securities were the most used financing instrument. Net funding with Treasury credit certificates through August amounted to 27.6 trillion lire, or only slightly less than the total for 1984. The net funding with Treasury bills was on a small scale, though considerably up on the same period in 1984. The placement of Treasury credit certificates and twelve-month securities was made easier in the first quarter, when the Treasury bill yield curve was almost flat, by expectations of reductions in yields, which led to net redemptions of 3 and 6-month paper. In the second quarter the

Treasury bill yield curve developed a negative slope, which led to heavy investment in 3 and 6-month bills at the expense of those with 12-month maturities and Treasury credit certificates.

As from July, with the aim of satisfying demand with diversified issues, mid-month offers were made of 5-year Treasury credit certificates carrying six-monthly coupons based on 12- month Treasury bill yields. The more frequent adjustment of the yield on these securities and their shorter maturities are counterbalanced by a smaller premium over the reference rate. At the same time the method of placement at predetermined conditions that had been in force until March was reintroduced.

The demands made by the public sector on financial resources were met in part by the central bank, which increased its securities portfolio by approximately 9.5 trillion lire through August. The banks and the special credit institutions also increased their demand for securities compared with the first eight months of 1984. On the other hand, the rise in the non-state sector's securities portfolio was smaller than that recorded through August 1984, partly as a result of the substantial increase in the portfolio held indirectly via investment funds.

In contrast with the growth of the total financial assets of the non-state sector as a whole, which over the period proceeded at the same rate as earlier, that of firms' financial assets slowed sharply in the first half of this year. Furthermore, the ratio of this aggregate to GDP stabilized after rising very fast last year. Firms' short-term borrowing showed a similar pattern.

A summary reconstruction of firms' flow of funds shows that the latter of these developments cannot be explained simply in terms of substitution in respect of other forms of finance. Medium and long-term credit remained virtually unchanged; net share issues through June amounted to 4.1 trillion lire, an increase of 800 billion lire on the same period last year, but this larger flow of share capital was offset by the reduction in the flow of endowment funds to the state-controlled enterprises from 6.4 to 4.2 trillion lire. In relation to the external sector, the net liabilities of the non-state sector as a whole increased over the first six months, whereas there had been a decline in the same period of 1984. The amounts involved, however, are not large enough to compensate for the reduction in domestic borrowing. The latter, which occurred despite the strength of investment activity, therefore needs to be seen as the result of a series of factors: persistently high real interest rates (Figure 12); good profits for the second year running; and, lastly, by last November's decree which eliminated the fiscal advantages of financing holdings of government securities by borrowing from banks.

Bonds issued by the private sector still constitute only a modest part of the Italian financial market. In the first half of this year less than 200 billion lire were raised through issues of ordinary bonds and just over 300 billion through issues of convertible bonds. However, when redemptions are taken into account, the net flow of funds falls to less than half the above.

Table 17

Investment funds' portfolios

(amounts in billions of lire)

	1984		1985	
	Sept.	Dec.	Mar.	June
Lira securities	**295**	**1,119**	**4,889**	**8,695**
Government securities (1) ...	235	772	3,511	5,745
Bonds	27	171	603	1,098
Shares	33	176	775	1,852
Foreign currency securities	**—**	**—**	**17**	**57**
Bonds	—	—	4	29
Shares	—	—	13	28
Total ...	**295**	**1,119**	**4,906**	**8,752**

(1) Including Treasury bills.

By contrast, there have recently been very important developments in the share market. The rise in share prices over the first eight months of this year averaged 70 per cent (see insert). This was attributable in part to improved company profits, the greater marginal value of parcels of shares needed to acquire controlling interests, news about forthcoming company mergers and, above all, to the substantial amounts that Italian and foreign investment funds channelled into the stock exchange. At the end of August the Italian funds' investments in shares amounted to 2.8 trillion lire, as against 176 billion at the end of December 1984 (Table 17). In contrast, new share issues by listed companies amounted to little more than 1.3 trillion lire, of which only part were placed through the market. The very strong demand for the shares of new companies being listed on the stock exchange, which has led to their public offers being regularly closed on the first day of subscription, has also revived discussion of share placement methods and, in particular, of whether shares should be allotted proportionately at a fixed price or their allocation left to variations in the offer price.

Table 18

Gross share issues

(billions of lire)

	1983	1984	1st 8 months 1984	1st 8 months 1985
Listed shares	**4,121**	**5,980**	**1,481**	**1,320**
state-controlled companies	3,269	3,970	508	252
private sector companies	852	2,010	973	1,068
Unlisted shares	**8,413**	**5,804**	**4,564**	**4,469**
state-controlled companies	5,996	2,434	2,260	1,761
private sector companies	2,417	3,370	2,304	2,708
Total	**12,534**	**11,784**	**6,045**	**5,789**
state-controlled companies	9,265	6,404	2,768	2,013
private sector companies	3,269	5,380	3,277	3,776

The credit intermediaries

As indicated earlier, bank lending slowed sharply in the first eight months of the year, continuing the decline that started in autumn 1984.

The sectors that curbed their bank borrowing most were general government and non-financial enterprises. The public corporations and leading private sector companies, in particular, considerably reduced their outstanding indebtedness to credit institutions.

The slowdown in lending was much more pronounced for the biggest credit institutions — a reflection of the dominant position of large firms among the customers of these banks. Consequently, the redistribution of market shares to the benefit of smaller banks and savings banks was intensified, after gaining its initial momentum following the abolition of the credit ceiling.

Bank lending rates adjusted with a lag to the weakening of the loan market, exhibiting the same downward stickiness as they had shown in similar cyclical conditions in the past. Between December 1984 and August 1985 they came down by just over one percentage point. In September, after the major banks had announced decreases in their prime rates, there was a further decline in bank rates, with the lending rate falling by over half a point.

The rate of increase in bad debts has fallen from the rather high levels recorded in the last few years, with large differences between the various size groupings. The minor banks, and among these especially the savings banks, have recorded higher than average rates of increase.

In the early months of the year the growth in bank deposits that had started in the last part of 1984 accelerated considerably. However, since April some of this momentum has been lost. The annualized rate of growth through August was thus 14.4 per cent.

In addition to the factors described above, deposits were influenced by the interest rate policy pursued by the banks as of the last few months of 1984 (Figure 13). In the first quarter of 1985, continuing the tendency of the last three years, the differential between the yield on Treasury bills and that on bank deposits net of withholding tax narrowed significantly, thereby encouraging the expansion of deposits. In April the buoyancy of deposits and the weakening demand for credit led the banks to reduce their deposit rates again. Consequently, the yield differential gradually widened and, net of the withholding tax on deposit interest, stood at 6.3 points at the end of September, as against 5.5 points at the end of 1984.

Recent trends in unit values of investment funds and in some bond and share prices

The development of Italian investment funds, introduced in our financial system by Law 77/1983, has enlarged the range of instruments available to savers for their investment choices.

A first evaluation of the results achieved by these funds, classifiable according to portfolio composition as being bond-based, mixed or share-based, can be made by calculating indices of unit values. These indices are calculated for each category of funds and for the sector as a whole (cf. Table).

Index of unit values of Italian investment funds

(2 July 1984 = 100; end-of-period data) (1)

	Bond-based	Mixed	Share-based	Total
1984 — July . . .	101.30	103.05	101.37	101.82
Aug. . .	102.88	105.59	103.72	103.93
Sept. . .	103.57	105.84	103.71	104.21
Oct. . . .	104.85	107.32	105.35	105.66
Nov. . .	106.53	109.70	108.41	107.96
Dec. . .	108.57	113.42	113.29	111.37
1985 — Jan. . . .	111.77	119.40	122.06	117.08
Feb. . .	113.80	122.70	127.35	120.46
Mar. . .	114.69	122.62	126.64	121.07
Apr. . .	115.67	124.46	128.83	122.59
May . .	116.90	126.70	135.15	126.16
June . .	118.11	129.45	142.48	130.19
July . . .	119.45	131.98	149.07	133.91
Aug. . .	121.00	134.29	154.21	137.06
Sept. . .	123.01	137.21	161.43	141.29

(1) The base is 2 July 1984 since only at that date were all three categories of funds operating.

The fastest growth was registered by the index of share-based funds, which increased by 55.7 per cent in the twelve-month period ending in September, and by 42.5 per cent from the beginning of the year, notwithstanding the slight downturn in March-April (Figure 1). In the wake of the strong rise in the quotations of shares, this index considerably outpaced those of mixed and bond-based funds, which rose by 29.6 and 18.8 per cent respectively in the twelve months ending in September, and by 21.0 and 13.3 per cent from the beginning of the year.

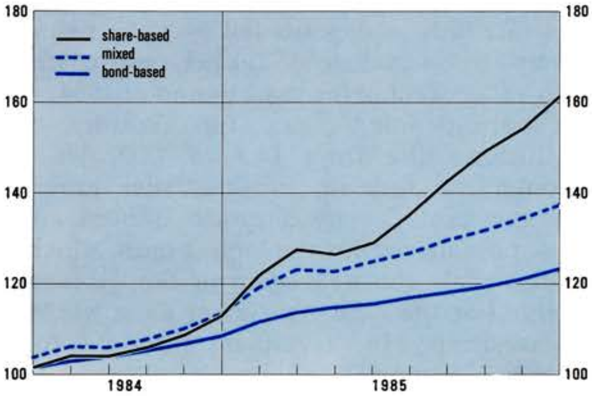
An examination of the indices relative to the single funds reveals a notable differentiation of the results within all three categories. While average six-monthly gross yields on investments in share-based funds were equal to 27.5 per cent in the six months ending in September, the returns on the single funds varied between a minimum of 18.6 and a maximum of 37.8 per cent. A sizeable difference was also observable for mixed and bond-based funds. For the former, the average return was 11.9 per cent with a minimum of 8.0 per cent and a maximum of 23.6 per cent. For bond-based funds, returns ranged from 6.5 to 10.2 per cent, with an average value of 7.2 per cent.

Comparison of the general investment fund index with those of Treasury Credit Certificates, Treasury Certificates in ECU and shares also produces interesting results (Figure 2). In the period under examination, the investment fund index was strongly correlated to that of Treasury Credit Certificates (which at the end of June 1985 accounted for nearly 48 per cent of the securities in funds' portfolios, and, to a lesser extent, to the share index of the principal market. In the twelve months through September 1985, the yield on investment fund units was equal to 35.6 per cent, as against 17.5 per cent on Treasury Credit Certificates, 28.3 per cent on Treasury Certificates in ECU, 103.2 per cent on shares on the principal market, and 8.0 per cent on shares quoted in the over-the-counter market. It is necessary, however, to note the different fiscal treatments of the various securities in question and the different incidence of commissions. In particular, yields on investment fund units are gross of the charges paid directly by subscribers, primarily subscription commissions. These commissions vary considerably, ranging from 0.5 to 6 per cent for lump-sum investments and from 1 to 7.5 per cent for instalment type investments. Moreover, they are higher for share-based funds than for mixed or bond-based funds, in that order.

The stability of the index of Treasury Credit Certificates, together with the periodical revision of the interest paid, confirms the classification of these securities as a financial investment bearing low risks. In contrast, the index of Treasury Certificates in ECU, which rose substantially in the first months of the year and again in the summer, reflects changes in the lira-ECU exchange rate and in stock exchange quotations. Lastly, the movements of the share price *indices highlight the wide divergence between the performances of the principal and the over-the-counter markets, both of which show pronounced price variability for individual shares.*

Figure 1

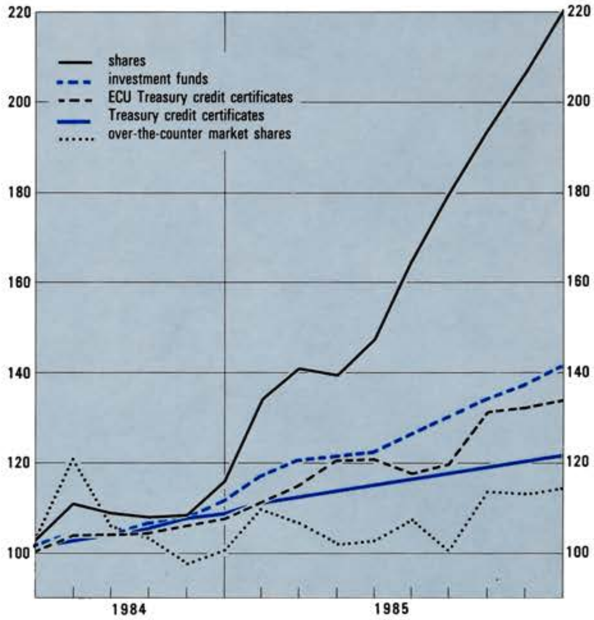
Italian investment funds (1)



(1) Index of unit values, 2 July 1984 = 100. Funds are classified (share-based, mixed or bond-based) according to the composition of their portfolios.

Figure 2

Securities market (1)



(1) Index of unit values and prices, 2 July 1984 = 100; over-the-counter market index, 4 July 1984 = 100 because contracts are settled on a weekly basis.

Methodological note

The indices of Treasury Credit Certificates and Treasury Certificates in ECU measure the value of an investment comprising all such securities listed in the Exchange in amounts proportional to the corresponding total in circulation. We are dealing with "chain indices", which are the products of the indices relative to homogeneous subperiods; the chain links correspond to the dates of variation of portfolio composition (the date in which a new security is listed for quotation or a security already in the portfolio is redeemed partially or in total) or to the dates of interest payments.

Investment fund indices are calculated in the same fashion as those of the Treasury Credit Certificates and the Treasury Certificates in ECU, and are based on the unit values published daily by the management companies. The weights attributed to the single funds are equal to the number of units in circulation at the end of every three-month period. The classification of each fund (bond-based, mixed, or share-based) depends on the portfolio composition at the same date.

The share price index corresponds to the ex-dividend price index published by the Bank of Italy, adjusted to include dividends. The over-the-counter market index is calculated on the basis of the *tel quel* prices of all the securities listed in this market, with the same method as indicated above for Treasury Credit Certificates, Treasury Certificates in ECU and investment funds.

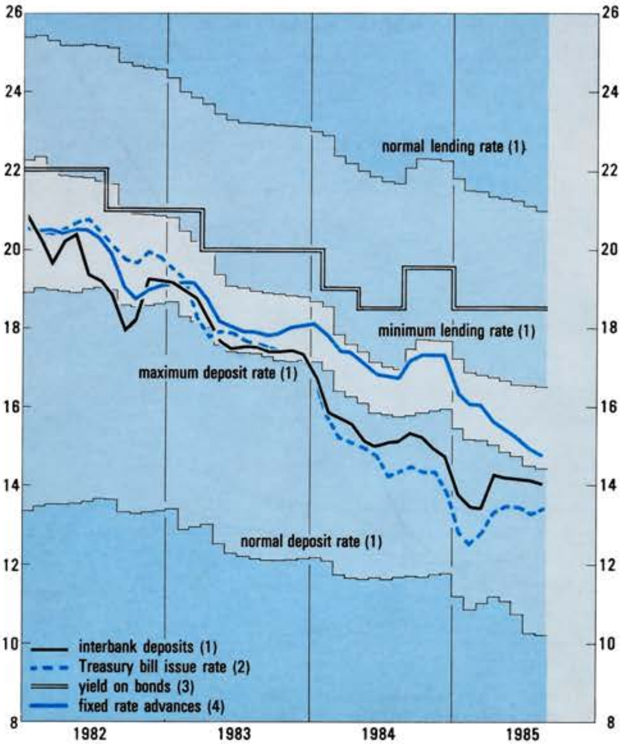
In comparing the indices, account must be taken of the varying size of the portfolios under examination. Since the number of Treasury Credit Certificates listed (49 at the end of September) is sizeably greater than that of Treasury Certificates in ECU (5 at that date), a part of the greater variability of the index of Treasury Certificates in ECU is explained by the smaller number of securities in the portfolio.

A similar consideration holds for investment fund indices. Since the number of funds increased sharply from 2 July 1984 to 30 September 1985 (from 3 to 39), these indices are more variable in the first part of the period.

At the end of September 1985 the market value of the portfolios surveyed was equal to 183,700 billion lire for Treasury Credit Certificates, 3,200 billion for Treasury Certificates in ECU and 39,800 billion for the 40 principal market shares comprising the Bank of Italy sample, 6,900 billion for the shares of the over-the-counter market, and 9,800 billion for the investment funds.

Figure 13

Interest rates



(1) Based on returns made every ten days (see Table a27 in the Appendix).
(2) Weighted average of the yields on 3, 6 and 12-month Treasury bills.
(3) Average yield in the secondary market on industrial credit institution bonds.
(4) Maximum rate.

Between December 1984 and September 1985 the average deposit rate fell by over two points. Since the reduction in the average lending rate was smaller, there was some increase in the differential.

The expansion in the market for CDs continued. The net issues made between December and June were twice those of the same period in 1984. For the banking system as a whole the proportion of total deposits accounted for by CDs rose from 1.7 per cent in June 1984 to 3.2 per cent in June 1985.

The July and August figures nonetheless run counter to the trend of the preceding months, with the stock of CDs in circulation decreasing for the first time in nearly two years. This was probably due, on the one hand, to a rectification of the insufficient supply of government securities, the incidental motive that had given rise to the sharp increase in CDs at the beginning of the year, and, on the other, to the rapid growth in deposits, the slowdown in lending and the decline in market rates, which probably reduced banks' interest in using this fund-raising instrument.

With regard to banks' securities portfolios, there was further disinvestment in Treasury bills, though this was largely offset, on a seasonally adjusted basis, by purchases of Treasury credit certificates and long-term securities. The ratio of Treasury bills to deposits fell over the first eight months to an average of 7.0 per cent, compared with 9.0 per cent in the same period of 1984, while the corresponding figure for Treasury credit certificates rose from 14.1 to 17.3 per cent. Though the increase in this latter ratio was common to all the size categories of banks, it was most pronounced for the largest ones, which felt most acutely the weakening of the demand for credit. For the banking system as a whole the disinvestment in securities through August amounted to only 2.3 trillion lire, compared with 13.1 trillion in the corresponding period of 1984. On a seasonally adjusted basis, these movements reflect a sharp rise in banks' holdings of securities in the first eight months of 1985.

The rapid growth in deposits in conjunction with the slackening of lending allowed banks to place more funds in the interbank market. The ratio of interbank liabilities to total liabilities rose gradually and returned close to the values of earlier years after having fallen to an unusually low level in 1984. Consequently, the interbank rate fell faster than the other money market rates and the differential with respect to Treasury bills, which had widened to two and a half points in 1984, gradually narrowed to half a point.

In the first eight months of the year the domestic lending of the special credit institutions rose at an annual rate of 7.7 per cent, a reduction of more than six points compared with the rise in the year 1984. There was an especially sharp slowdown in special credit in the period April-August. This was common to all the branches of activity, except agricultural lending, but the industrial credit institutes and the credit departments for financing public works were particularly affected.

The slow growth in industrial credit, which contrasts with the buoyancy of investment in machinery, plant and means of transport, was influenced not only by the substantial equity capital raised by large firms but also by the high level of repayments, which partly reflected the early repayment of a very substantial loan.

The short-term component of industrial credit also recorded a slowdown that can be attributed to the general weakness of the loan market. The influence of interest rates was small, with the differential between minimum bank rates and the institutes' short-term rates remaining virtually unchanged. The loan applications received by the special credit institutions, which will only affect disbursements at a later date, continued to be substantial, though below their end-1984 level.

The slacker pace of lending does not appear to have affected the special credit institutions' fund-raising, which expanded considerably. Bond issues in the first eight months of 1985 increased by 2.4 trillion lire, benefiting indirectly from the tax measure of November 1984. In particular, a rise in the issues of the real estate credit institutes was accompanied by an upturn in those providing industrial credit, which had made net redemptions in 1984. The proportion of floating rate bonds rose slightly, to reach 23.3 per cent of total bonds outstanding.

The special credit institutions continued to raise a substantial volume of funds with CDs, the outstanding value of which increased by 1.5 trillion lire through August (1.8 trillion in the same period of 1984). CD fund-raising ran at an especially high rate in the first quarter and then lost momentum in connection with the slowdown in lending of up to 18 months' duration.

Loans from abroad (which include finance obtained from the European Investment Bank) provided — net of the effects of the exchange rate changes — more than 1.4 trillion lire in the first eight months of the year, which was slightly less than the amount raised through August 1984.

The only source of funds to follow a different course was short-term bank loans, which fell considerably, in part because of a substitution by the agricultural credit institutes of CDs for bank credit.

The sustained high level of fund-raising at a time of slack lending resulted in a further increase in the special credit institutions' already substantial liquid assets. Their holdings of government securities grew by 3.8 trillion lire through August (almost twice the corresponding 1984 figure); of the total volume of these securities 80 per cent now consist of Treasury credit certificates. The liquid assets in the form of bank deposits decreased by 260 billion lire, as against a fall of 620 billion in the first eight months of 1984.

Short-term prospects: international and domestic

The international scenario

The world economy in 1985 has been characterized by a decline in the rate of growth of real income and trade, persisting payments disequilibria, weak commodity markets and growing fragility of the LDCs' external position. The cyclical slowdown of domestic demand in the United States — especially of fixed capital formation and stock accumulation — provides the main background to this scenario. In Europe income has continued to grow at the slow rate of recent years. Economic indicators are generally expected to show a gradual improvement — albeit a modest one — in the second half of 1985 and in 1986. The first estimates of third quarter output in the United States seem to confirm this general development.

According to IMF projections, real gross product for the industrial countries as a whole, after the growth of almost 5 per cent in 1984, should expand by 2.8 and 3.1 per cent respectively in 1985 and 1986, with the disparities in growth among individual countries being less pronounced than in 1984 (Table 19). For the developing countries the increases for 1985 and 1986 should be 3.5 and 4.1 per cent respectively, compared with 4.4 in 1984.

Table 19

OECD projections for some macroeconomic aggregates

(% changes on previous year)

	1984	1985	1986		1984	1985	1986
GNP (1)				**Current balances** (2)			
Industrial countries	4.9	2.8	3.1	Industrial countries	−35.2	−52.1	−51.1
of which:				*of which:*			
United States	6.8	2.6	3.3	United States	−93.0	−123.2	−141.1
Japan	5.8	4.4	4.0	Japan	36.4	45.6	57.0
Europe	2.3	2.3	2.5	Europe	28.2	31.8	41.5
Developing countries	4,4	3,5	4,1	Developing countries	−42,1	−49,4	−48,4
of which:				*of which:*			
Energy exporting	2.2	1.0	3.0	Energy exporting	−3.2	−7.8	−9.1
Non-energy exporting	5.6	4.7	4.6	Non-energy exporting	−38.9	−41.6	−39.2
Consumer prices				**Unemployment** (3)			
Industrial countries	4.7	4.1	4.1	Industrial countries	8.3	8.2	8.2
of which:				*of which:*			
United States	4.3	3.8	4.3	United States	7.5	7.3	7.1
Japan	2.3	1.8	2.1	Japan	2.7	2.4	2.4
Europe	6.1	5.4	4.5	Europe	10.9	11.2	11.3
International trade (1)							
World trade	8,5	3,5	4,3				
Exports				Imports			
Industrial countries	9.7	3.7	4.1	Industrial countries	11.7	6.1	4.7
Developing countries	8.4	0.3	5.0	Developing countries	2.1	−0.1	2.7

Source: IMF *World Economic Outlook*, Sept. 1985.
(1) At costant prices. — (2) Billions of dollars. — (3) Level.

The industrial countries have made further progress on the inflation front, with the increase in consumer prices being expected to fall from 4.7 per cent in 1984 to 4.1 in 1985. In the current year employment has risen, even in Europe where, however, the improvement has not been sufficient to prevent an increase in the unemployment rate.

Developments in international trade mirror those in economic activity. After an 8.5 per cent growth in volume in 1984, world trade is liked to expand by less than half that rate in 1985, though a modest recovery of slightly more than half a percentage point is expected in 1986. The worsening of the developing countries' trade flows is especially acute: following an 8.4 per cent increase in 1984, their export volumes are expected to remain stable in 1985. Despite a deterioration in their terms of trade and a 2 per cent loss of export receipts in dollar terms, the widening of the current account deficit will be limited, thanks to the restraints imposed on imports, which are also expected to remain flat in volume terms. While the 1984 deficit on current account amounted to $42 billion, the deficits for 1985 and 1986 are forecast to fall little short of $50 billion each year; the increase is expected to occur mainly in fuel-exporting developing countries.

The worsening of the LDCs' financial position is reflected by various indicators of risk. The level of foreign debt will climb from $830 billion in 1984 to $865 billion in 1985, representing respectively 1.5 and 1.57 times the corresponding flows of exports. A similar deterioration in debt servicing is expected; in 1986, however, the ratio should improve somewhat.

Finally, the industrial countries' current account deficit is becoming larger and the divergence among countries more pronounced. The new and widening deficit in the United States ($123.2 billion in 1985 and $141.1 billion in 1986) will be paralleled by new and growing surpluses in Germany ($19.9 billion and $24.2 billion in 1985 and 1986 respectively) and, above all, in Japan where the foreign component of income determination should yield surpluses of $45.6 and $57 billion.

It should be pointed out that the projections for 1986 contained in Table 19 and outlined above were made by the IMF during the summer and are based on the usual assumption of no change in the exchange rates existing at that time. Therefore, the effects of recent exchange rate movements on competitive positions, which should partly reduce the imbalances, are not taken into account. Furthermore, differences in inflation rates among the leading industrial countries and the international prices of manufactures and commodities could come into prominence. The weakening dollar should help to bring down inflation in industrial countries whose currencies should appreciate. Dollar prices of commodities might be higher than forecast because of the relation that links them to movements of the dollar, and of manufactures because of the mechanical effects of the depreciation of the dollar in relation to the prices used by the IMF in its estimates.

Exchange rate instability, an overvalued dollar at levels far removed from those justified by the economic fundamentals and the precariousness of the financial position of the less developed countries were recently examined by the so-called Group of Five meeting in New York. In the light of the subsequent depreciation of the dollar, issues relating to world economic developments and questions concerning the international monetary system were examined at the annual meeting of the IMF and the World Bank in Seoul at the beginning of October.

The efficacy of concerted interventions in foreign exchange markets, at times when market conditions do not reflect the underlying economic fundamentals was recognised. The need to increase the role of the official development banks and commercial banks to promote a medium-term solution to the problems facing the LDCs was emphasized, based on the commitment of LDCs to re-establish conditions conducive to adjustment of their economies. However, it was not yet possible to reach consensus on the urgency for a change in the economic policy mix of industrial countries so as to consolidate the recent trends in the exchange markets and to restore vigour to the world economy, thus providing, in particular, greater outlets to the exports of developing countries. Only in this way will it be possible to identify with greater precision, and with improved chances of success, the measures required to finance adjustment and development in the less favoured countries, with due regard to the specialized roles of the International Monetary Fund, the official development banks and commercial banks.

Projections for the Italian economy in 1985

According to data from economic surveys, firms' orderbooks have shown no improvement in recent months, albeit remaining at high levels. Economic agents expect that the performance of the principal demand components will be positive and expansionary in the second half of 1985. On the other hand, the adjusted industrial production index for July-August was 1.4 per cent lower than in the second quarter; third quarter performance, extrapolated for September data, confirms this tendency.

According to the *Relazione previsionale e programmatica*, published on 30 September, real income will grow by 2.4 per cent in 1985. However, given the results of the first half of the year and the third quarter slowdown in industrial activity, an appreciable recovery in the last part of the year is essential to achieve this level.

On the basis of estimates contained in the projections for 1985, income and demand in Italy did not follow the general slowdown in the world economy; domestic factors influencing income growth prevailed. The rate of growth of domestic demand (2.9 and 2.7 per cent in 1984 and 1985 respectively; Table 20) reacted to budgetary impulses and the working-out of the cycle of fixed investment. The growth rates of such investment (4.1 and 4.5 per cent respectively in 1984 and 1985) were fostered by improved profitability. Export growth for the current year is expected to be 6 per cent, implying a second half acceleration and a larger international market share for Italy.

As in 1984, the growth in domestic demand was higher than the average for the major industrial countries competing in the Italian market and induced a substantial flow of imports in volume terms. The increase in which considerably outpaced GDP growth and, together with the substantial rise in import prices, was the cause of the further widening of the current account deficit forecast for 1985 (12 trillion lire, or 1.8 per cent of GDP). The large merchandise deficit (expected to reach 19 trillion lire in the fob-fob valuation) should be partly offset by a favourable development of net receipts from tourism (13 trillion). These movements will produce a worsening in Italy's international financial position, which, net of gold reserves, was positive to the extent of $11 billion in 1979. However, by 1981 it had become negative, remaining so between 1982 and 1984 in an amount exceeding $20 billion. At the end of this year the negative balance is expected to be $30 billion. Even adjusting for gold reserves valued at current prices, the balance should remain negative in 1985 for an amount of more than $7 billion.

Table 20

Projection and planning scenario for the Italian economy

	1984	1985 (1)	1986 (2)
		(% changes)	
Real aggregates			
Gross domestic production	2.6	2.4	2.5-3.0
Domestic demand	2.9	2.7	2.0-2.7
Real balance of payments (3)	−2.3	−1.9	....
Deflators			
Gross domestic production	10.7	8.4	5.9
Private consumption	11.1	9.2	6.0
Terms of trade (3)	−0.7	−1.0	....
		(percentages)	
Financial balances/GDP			
Current account balance (IMF)	−0.9	−1.8	−1.1
Deficit on current account (annual rates)	6.8	7.2	....
Net debt (annual rates)	13.5	13.7	....
State sector borrowing requirement (net of settlements of previous debts)	15.6	15.7	14.8

(1) Istat projection. — (2) *Relazione previsionale e programmatica sul 1986*. — (3) Percentage changes of the index calculated as a ratio of the index numbers of export and import volumes (deflators) in national accounts.

According to projections, the average inflation rate for 1985 should be two percentage points higher than the official target set a year ago, largely because of the rising value of the dollar but also because of the lack of more incisive guidelines for the determination of nominal incomes. The situation improved during the year: after several months of hesitation, inflation recently resumed its downward course. Measured in terms of the consumer price index, it declined from an annual rate of 9.4 per cent in July to an estimated 8.7 per cent in September; and, in terms of wholesale prices, from 8.2 per cent at the beginning of the year to 6.9 per cent in August.

The state-sector borrowing requirement for 1985, in September 1984 estimated at 96,300 billion, now officially stands at 106,700 billion lire. Thus, continuing at record postwar levels as a percentage of national product, it has contributed towards maintaining a persistently high level of domestic demand and generating a balance of payments deficit which is four times that envisaged a year ago. The public debt has continued to grow at a rate decidedly higher than that of output; by end-1985 total debt will reach a level almost equivalent to the value of a year's national output.

These trends are responsible for the growing disparity between the funding of productive activity and that of the public sector borrowing requirement. Recent developments indicate that lending to the non-state sector in 1985 will be 7 trillion less than September 1984 forecasts, representing a growth of 10 per cent compared with the targeted rate of 12 per cent. However, the expansion of total credit is expected to exceed projections by 3.5 trillion (140 trillion lire as against 136.5 trillion). The proportion of total credit absorbed by the state sector, which in 1984 had amounted to 66 per cent, will therefore climb in 1985 to 74 per cent (Table 21).

Table 21

Financial flows

	Gross domestic product		State sector borrowing requirement		Credit to the non-state sector (B)		Total domestic credit (A)+(B)			Private sector financial assets (2)			
					change		change			change		ratio to GDP	
	billions of lire	% change	total	domestic (A)	billions of lire	%	billions of lire	%	ratio to GDP (3)	billions of lire	%	(3)	(4)
1975	125,378	13.2	16,444	14,218	16,861	18.7	31,079	22.6	24.8	24,761	20.7	19.7	115.2
1976	156,657	24.9	14,867	14,208	19,753	18.8	33,961	20.1	21.7	29,549	20.5	18.9	111.5
1977	190,083	21.3	22,567	17,973	17,289	13.9	35,262	17.4	18.6	34,075	19.5	17.9	110.0
1978	222,254	16.9	34,305	31,763	17,498	12.7	49,251	20.7	22.2	48,780	23.3	21.9	116.2
1979	270,198	21.6	30,371	28,531	25,217	16.5	53,748	18.7	19.9	58,166	22.5	21.5	117.5
1980	338,743	25.4	37,017	34,015	29,256	16.4	63,271	18.6	18.7	51,655	16.3	15.2	109.2
1981 (1)	401,579	18.5	53,296	45,242	28,092	13.5	73,334	18.1	18.3	70,453	19.1	17.5	110.9
1982 (1)	470,484	17.2	72,653	68,987	31,404	13.4	100,391	20.9	21.3	89,555	20.1	19.0	113.1
1983	538,998	14.6	88,604	85,541	35,002	13.1	120,543	20.7	22.4	108,164	20.3	20.1	119.0
1984	612,112	13.6	95,351	91,364	47,106	15.3	138,470	19.5	22.6	129,179	20.1	21.1	126.1
1985 (5)	669,100	9.8	96,300	93,500	43,000	12.0	136,500	16.1	20.4	126,000	16.4	18.8	133.9
1985 (6)	**679,200**	**11.0**	**106,700**	**104,000**	**36,000**	**10.0**	**140,000**	**16.5**	**20.6**	**123,000**	**16.0**	**18.1**	**131.4**

(1) Net of the effects of the non-interest-bearing deposit on external payments. — (2) Domestic, net of shares. — (3) Period flows. — (4) End-of-period stocks. — (5) Planning scenario (September 1984). — (6) Projection.

N.B.: The total 1985 state sector borrowing requirement does not include debt payments totalling 12,485 billion, of which 2,000 billion in cash; the latter, by contrast, are included in the domestic borrowing requirement.

The principal measures foreseen by the Finance Bill for 1986

Taxes — *From 1 January 1986, the ILOR rate will be fixed at 16.2 per cent, incorporating the extraordinary surtax applied from 1982 to 1985; the same procedure is adopted for the flat-rate withholding tax on securities issued before 1 January 1984, the rates of which are increased to 10.8 and to 21.6 per cent. The rate for partial payments in advance of IRPEF, IRPEG and ILOR is to be fixed at 92 per cent.*

The enrollment tax for the University and higher education institutions will increase as of the 1985-86 academic year. The increase is particularly sizeable for students who are enrolled but have fallen behind. The enrollment taxes for secondary schools are to be increased at the beginning of the 1986-87 school year.

Tariffs — *Reduced railway fares for students and commuters will increase by 20 per cent. Free travel and discounted fares are abolished. The minimum fares for urban transport services will increase by 20 to 25 per cent; weekly and monthly tickets are expected to rise by the same amount.*

In order to compensate ENEL and SIP, respectively, for the reductions of budget transfers and for the increased concession charge to be paid to the state in 1986, the Interministerial Committee on Prices will issue decrees reducing the relief granted to domestic users of electricity and telephone services.

Personnel — *Salary increases in the public sector may not exceed 6, 5, and 4 per cent in 1986, 1987, and 1988 respectively. To this end, budget appropriations for the contract renewals of government employees and those of autonomous government agencies are limited to 350 billion lire for each of the next three years. Restrictions on hiring are extended to 1986, with several exceptions, in particular for local authorities.*

Social security — *The revaluation of pensions, which has been quarterly since 1983, will become half-yearly with the adjustments taking place on 1 February and 1 August. The revaluation of the annuities paid by the Industrial Accidents Insurance Institute (Inail), which has been annual since 1983, will be made every second year. The next adjustment will occur on 1 July 1987. Ordinary family allowances will not be paid for the first child; supplementary allowances will be awarded on the basis of new income brackets. The latter are obtained from reference incomes fixed for different-sized families in order to reorganize social assistance for less well-off persons. Lastly, the daily allowances paid by Inail from 1982 onwards to independent farmers, share croppers and tenant farmers for temporary disability due to on-the-job accidents or work-related illness will be suppressed.*

Total credit flows will be another 3.5 trillion higher than this forecast if, before the end of the year, the state-controlled companies make the bond issues provided for in the decree recently approved by the government. Debt servicing payments on these issues will be a charge on the budget.

By comparison with the above-mentioned credit expansion, the private sector's total holdings of financial assets are estimated to grow by 16 per cent. If the public sector borrowing requirement is contained within the limit set for the year, the growth of the money supply (M2) will be about 12 per cent. Net of certificates of deposit, the increase should be smaller.

Market sales of government securities and the control of the monetary base could be facilitated in the last part of the year by a continuation of the drop in banks' borrowing rates. In 1985, the monetary base should grow by slightly more than 11 per cent, an amount similar to that of the previous year. Based on these assumptions, real interest rates on government securities should, on average, be somewhat lower in 1985 than in 1984.

The planning scenario for 1986

The main objectives for 1986 set out in the *Relazione previsionale e programmatica* and in the Finance Bill are:

– a growth of 2.5-3 per cent in real income;

– a significant decline in inflation: measured in terms of consumer prices, it should be around 6

Social security contributions paid by employers for wage and salary earners' pensions will increase by 1 per cent. Shopkeepers' and artisans' contributions, which are proportional to the incomes of their businesses, will be increased by the same percentage. In addition, these latter categories are subjected to an increase in per capita contributions (102,000 lire per year). Alternative social security schemes which exonerate the participants from the general scheme must make a solidarity contribution to the Wage and Salary Earners Pension Fund equal to 2 per cent of members' incomes. The payments of the Wage Supplementation Fund and other social benefits in place of wages providing not less than 80 per cent of earnings, will be reduced by an amount equal to the relevant social security and health contributions. Lastly, the rates due to Inail for self-employed and wage and salary earners in agriculture will be sizeably increased.

Health — *Budget current account financing of the National Health Service in 1986, 1987, and 1988 is fixed respectively at 41,600, 43,630 and 45,385 billion lire; the 1986 appropriation is 6 per cent higher than in 1985.*

The charge for drugs and for laboratory analyses will be raised from 15 to 25 per cent; the fixed charge per prescription will be increased from 1,300 to 2,000 lire.

From 1 January 1986, the health service contribution rates will be 9.6 per cent for public and private employers. The health service contribution paid by wage earners will be 1.35 per cent, an increase of 0.20 percentage points. These rates decrease to 6.50 per cent for employers and to 0.25 per cent for wage earners on that part of incomes between 30 and 100 million lire per year (the sum paid on this part of income is considered as a solidarity contribution). That part of incomes in excess of 100 million lire is exempt. The reductions in contributions for the industrial and commercial sectors are lessened by 0.68 percentage points for male employees and 2.30 points for female employees.

Beginning from the above-mentioned date, health service contributions paid by shopkeepers, artisans and members of the professions will rise from 4 to 9 per cent of their income liable to IRPEF declared in the preceding year; however, the former per capita contribution is suppressed. Property and capital income are excluded from the computation. Independent farmers, share croppers and tenant farmers are subject to the same form of contribution (they were previously required to make two payments, the first proportional to agricultural imputed income, the second a per capita lump sum), as are wage earners and pensioners (for those incomes for which the tax liability has not yet been paid). Reduced rates are also applied to self-employed earnings and to entrepreneurial income on the part above 30 million lire.

per cent on average for 1986 and 5 per cent by year-end;

— a substantial reduction in the balance-of-payments deficit on current account, which should decline from 1.8 per cent of GDP in 1985 to 1.1 per cent (about 8 trillion lire) in 1986;

— a target limit of 110 trillion lire for the state-sector cash borrowing requirement, representing a reduction from 15.7 per cent of GDP in 1985 to 14.8 per cent in 1986 (Table 20); the achievement of this objective depends on further measures to cut spending and/or increase receipts to the extent of 4 trillion lire.

Income growth should be generated especially by higher exports and investment. The projected decline in inflation is dependent on moderate growth in import prices and to a rise in wages within a range of 6.5 to 7 per cent, which, compared with the current year, would induce a considerable reduction in total unit costs.

Budget policy as laid down in the Finance Bill, along with other measures, forms part of the plan for reforming public finances already outlined by the Treasury Minister (see insert). It aims principally at reducing the burden of the public sector borrowing requirement net of interest payments. Its implementation is urgent, not least in order to forestall negative effects on the expectations and behaviour of the social partners. On its success depends the possibility of setting in motion a virtuous circle involving a reduction of inflation and of nominal and real interest rates. Such a process would induce, first, a further slow-down of, and then a halt to, the mounting volume of public debt.

Considered as a whole, these initiatives aim at increasing the participation of the community in covering the cost of public services, especially in the health sector and at the local authority level. They seek to increase some social security contributions and to accelerate their payment, to reduce a number of social security benefits, to limit the growth of public wages and, finally, to ensure that part of the deposits held by some public entities in the banks are redirected to the Treasury. Official estimates indicate that these measures could result in an overall reduction in the underlying borrowing requirement of about 14.5 trillion lire, which would be offset by a diminution of 3.7 trillion (about 6.5 trillion on an annual basis) in tax receipts resulting from the planned revision of IRPEF rates.

The Budget will produce a net reduction in state sector expenditure and, in particular, in transfers to decentralized institutions; for the public sector as a whole this implies an increase in various items on the receipts side and only minor reductions in expenditure. The latter could be further reduced, especially in the national health sector, if the increased charges induce the community to reduce waste. Many of the planned measures will have a once-off effect, for example the accelerated payment of social security contributions and the reflow of part of public entities' balances to the Treasury. Moreover, a number of interventions regarding public sector final expenditure, even though resulting in a permanent reduction, do not seem sufficient to make a telling impact on underlying trends, as in the case of changes in family allowances and the half-yearly rather than quarterly adjustment of pensions. The objective of adjusting government employees' wages and salaries to the target rate of inflation is a step in the right direction; it is essential that this policy be adhered to if the larger goals with respect to the reduction in current expenditure are to be achieved.

As the primary objective of fiscal reform, reduction in expenditure derives its importance from the fact that increased taxation, higher public service charges and social security contributions inevitably increase costs and prices with a resultant erosion of Italy's competitiveness.

A more ample coverage of the cost of public services is necessary; moreover, going beyond the interventions contained in the Finance Bill, the much larger problem of improving the quality of public services, even on the organizational level, must be tackled.

The effects on the real economy of the implementation of these measures and of the impulses deriving from the international economy must be evaluated against the elements that characterize the present cyclical phase: the expansion in domestic demand, the deceleration in inflation and the state of the external accounts.

These measures imply a reduction in consumer demand which would serve to curtail the current account deficit. Official estimates with respect to capital formation for 1986 are encouraging; the public component will be the major contributing factor. Also from this perspective, the success of measures aimed at reducing current government expenditure will be vital to ensure that the resources available for public investment are not partly used up. Under-achievement of the goals set would risk pushing the Italian economy down to the lower limit of the lower target-range for real income growth envisaged in the *Relazione previsionale.*

Although the measures contained in the Finance Bill will bring about an increase of 1 per cent in labour costs, the target for inflation appears to be within reach. However, as already indicated, this result will depend on the presence of favourable external conditions, partly temporary. Since these will also affect other economies, inflation differentials will not change to any significant degree and therefore neither will Italy's competitive position. The task remains, therefore, to remove the domestic causes of inflation.

The containment of labour costs in the private sector presupposes considerable moderation in contractual wage settlements, especially given that labour costs would carry a larger weight in the determination of wages and salaries in the event that present indexation mechanisms are reduced. It is to be hoped, for example, that the link between indirect taxation and the *scala mobile* will be rescinded in conformity with the agreement in principle between the social partners reached last summer — an agreement of which the EEC member countries' monetary authorities were made aware on the occasion of the realignment of the EMS exchange rates.

In 1986 monetary operations will be directed at sustaining the formation of new fixed capital within the limits compatible with the need to reduce external imbalance and induce a further reduction in inflation. Assuming that the state sector borrowing requirement is within the targeted amount, financial flows to the non-state sector should not exceed 9 per cent, in line with GDP growth at current prices and equal to the absolute value foreseen for 1985. The flow of total domestic credit should be close to that of the previous year. The increase in the outstanding stock of this aggregate should be slightly more than 14 per cent, representing a reduction of more than two percentage points, while in relation to GDP it should amount to 19 per cent, or 1.5 points less than the value projected for the current year.

Financial assets should increase by approximately the same amount as total credit flows, so that the total outstanding stock will be about 38 per cent higher than gross domestic product by the end of 1986. In the distribution of the flow of new financial assets between money (M2) and securities, the aim — though difficult to achieve — will be to keep growth of money on a steady upward trend roughly in line with nominal income; the growth of the other financial assets, mainly government securities, should be at more than twice the rate of M2 and exceed the already high rate of increase recorded in 1985.

The conditions necessary to achieve the desired growth in the two components of the financial portfolio, without substantial deviations from the targeted path, depend largely on two factors. The first is the need for an orderly development of the public sector borrowing requirement along the projected line. The second concerns the possibility of guiding the differential between bank deposit rates and the rates on government securities downwards in parallel with nominal interest rates as they adapt in the wake of declining inflation.

In view of the fact that the macroeconomic indications contained in the *Relazione previsionale e programmatica* are of a very summary nature, the estimates of the movements of the monetary and credit aggregates for 1986 must be considered as preliminary; these will be examined further in a forthcoming meeting of the Interministerial Committee for Economic Planning.

The commentaries are based on the information and statistics available at 24 October.

Articles

The revision of the monetary aggregates

1. Overall criteria adopted in making the revision

The development of new financial instruments and the greater availability of information have made a revision of the statistics relating to the various measures of liquid assets both opportune and practicable. The changes made resulted from a study of both the types of asset included in the various aggregates and of the classes of economic agents to be considered.

Ideally, the definition of monetary aggregates should be based on empirical evidence of the degree of substitutability between the various types of liquid assets. In practice, the choices made by the central banks as to which monetary aggregates are relevant, though guided by this general criterion, have also been influenced by the problems inherent in gathering information, the delays before some data become available and the reliability of the estimates obtainable for some variables. The choice between one or another classification has also sometimes reflected the criteria of controllability by the central banks of the various aggregates.

The redefinition of monetary aggregates illustrated in this note was mainly based on the examination of the liquidity characteristics of the various financial assets, as evidenced by their terms of issue and redemption. The absence of a sufficient number of observations for the newer types of financial assets necessitated that the search for empirically-based criteria of classification be set aside for the time being. Moreover, the definitions presented reflected the need to have available a measure of money which, including all the components of liquid assets subject to reserve requirements, could have a reasonably stable and predictable relationship with the monetary base created by the central bank.

The classes of money-holders on which it was decided to focus attention continued to be the non-state sector (composed of households, firms, insurance companies and public bodies not included in the state sector) and the private sector (households and firms only). Thanks to the increase in data available on a monthly basis, some statistics regarding the non-state sector produced during the year were revised so as to reduce the discrepancy between them and the more detailed statistics obtainable from the annual financial accounts published in the appendix to the Relazione Annuale of the Bank of Italy. (1)

The exclusion of state sector liquid assets (2) from the definition of money was based on the fact that this sector's expenditure behaviour is presumably not influenced by the amount of such assets. Money held by the non-state sector is moreover the sum of liquid liabilities resulting from the consolidated balance sheets of the liquidity-creating institution; it relates to the same set of economic agents which issue the liabilities that, together with the domestic borrowing requirements of the state sector, make up total domestic credit.

The Bollettino Economico and the Relazione Annuale customarily publish, in addition to the data referring to the non-state sector, figures referring more narrowly to the private sector (households and firms). However, delays in the availability of the data required to calculate this group's liquid assets make it necessary to concentrate short-term analysis on the non-state sector as a whole. It should also be stressed that, as the centralised Treasury account enters into force, the behaviour of liquid assets of the non-state sector should resemble that of money held by families and enterprises more closely than was previously the case, since local authorities and social security institutions will be able to hold with the banks only such funds as are really intended to function as "working balances".

In making the revisions for types of asset and classes of economic agents the different criteria available for the definition of a relevant monetary aggregate in an open economy were considered. In principle three criteria can be identified. Monetary aggregates can include: 1) all the monetary assets of residents, wherever and in whatever currency they are held; this focuses interest on an aggregate indicating the overall spending capacity of residents; 2) all monetary assets, by whoever held and in whatever currency, issued by resident intermediaries; this concentrates attention on an indicator of potential credit expansion; 3) all lira-denominated monetary assets, wherever and by whomever they are held; in this case interest is concentrated on the effects on the exchange rate of the demand for the national currency in relation to that for other currencies.

The definition of money used up to now by the Bank of Italy includes foreign currency deposits held by residents and excludes accounts in lire or in foreign currencies held by non-residents. Although this definition does not take any liquid assets held abroad into account, it approximates, in fact, to the first criterion, since residents cannot as a rule hold deposits in other countries. This criterion conforms to that on which the International Monetary Fund and the European Economic Community base their statistics: it was decided to continue to apply it, so as to have an indicator of the economy's capacity to spend.

2. The new definitions of money

The financial instruments included in the previous definition of M1 are given in Table 1. Apart from M1's limitations due to the difficulty of distinguishing, within bank demand deposits, between the transactions component and that representing an employment of savings, this aggregate is the one least affected by the changes in the financial system over the past few years.

Table 1

Components of the non-state sector's M1

	Amounts at December 1984 (billions of lire)
Notes and coin, net of balances with the Treasury, the Bank of Italy and banks ...	41,195
Non-compulsory deposits with the Bank of Italy	30
Current accounts with the Treasury of the social security institutions run by the Treasury itself	1,683
Current accounts with banks:	
- c/c of residents in lire	227,660
- c/c of residents in foreign currency ...	2,096
- c/c of stockpiling agencies	11
Current accounts with the PO, net of those of banks	7,437
M1 total (as previously defined)	280,112
less:	
- notes and coin held by special credit institutions	3
- notes and coin held by autonomous government agencies	1,250
- state sector c/c with banks	3,764
M1 total (as newly defined)	275,095

Although changes in respect of the type of instrument included in the aggregate were unnecessary, M1 was adjusted so as to exclude currency in the hands of the special credit institutions and the autonomous government agencies and the demand deposits of the state sector.

The old definition of M2 grouped time deposits with savings deposits (Table 2). This choice was justified by the possibility of obtaining partial or total repayment of time deposits before maturity, although on payment of a penalty, and by the substantial homogeneity of the interest rates applied to this form of fund-raising in relation to those on savings deposits. Moreover, owing to the possibility of early repayment, it was not deemed necessary to distinguish between time deposits on the basis of their maturities.

Table 2

Components of the non-state sector's M2

	Amounts at December 1984 (billions of lire)
M1 (as previously defined)	280,112
Deposits in residents' lira accounts with banks	
— restricted and unrestricted savings deposits	180,380
— certificates of deposit as per Ministerial Decree of 28.12.1982	7,533
PO deposits	
— savings books and certificates	42,518
M2 total (as previously defined)	510,543
less:	
— notes and coin held by special credit institutions and autonomous government agencies and state sector c/c with banks	5,017
— state sector savings deposits with banks	214
— certificates of deposit as per Ministerial Decree of 28.12.1982	7,533
plus:	
— bank fund-raising with "repurchase agreements"	847
M2A total (= new M1 + bank and PO savings deposits + "repurchase agreement" fund-raising)	498,626
plus:	
— certificates of deposits as per Ministerial Decree of 28.12.1982	7,533
M2 total (as newly defined)	506,159

Given their characteristics, funds raised by the banks by Repurchase agreements (Repos) were grouped with savings deposits. (3) Funds so employed by economic agents generally represent a short-term investment whose redemption value is known at the start; repayment at expiry date occurs more automatically than for time deposits, the latter as a rule being considered as tacitly renewed unless a client gives advance notice to the Bank of the intention to close the deposit.

The inclusion of Repos in liquid assets did, however, give rise to two problems: 1) information on such operations was only available as from end-1982: the inclusion of these funds in "money" thus introduced a permanent discontinuity in the historical series; 2) the data relating to the overall value of Repos were available, but data broken down by type of security were not. Without this information it was impossible to know if the correction to the non-state sector's security portfolio should be made, if double-counting in overall financial assets were to be avoided, in the item regarding Treasury bills, namely in M3, or in that for medium and long-term securities. The indications given by the banks which had made most use of this form of fund-raising suggested that Repos were at the time concentrated in the market for Treasury Credit Certificates though in preceding periods they had concerned numerous other classes of securities. Though the choice was arbitrary, it was decided to correct the component of financial assets represented by long and medium-term State securities. (4)

On the other hand, the separation of both savings and time deposits from negotiable certificates of deposit issued in accordance with the Ministerial Decree of 28/12/1982 did seem necessary. These certificates, which enjoy a higher yield on the reserve requirement, cannot be repurchased by the issuing bank before their maturity and therefore show characteristics closer to those of securities; this seems to be confirmed by their seasonal behaviour, which appears to be opposite to that of deposits.

It was therefore decided to introduce a new definition of money, M2A, which excludes certificates of deposit and includes bank fund-raising by means of Repos, so as to form a class of reasonably homogeneous instruments in terms of the liquidity needs they satisfy. This aggregate, if it has the merit of coming closer to the definition of money in the strict sense, nevertheless has some drawbacks as regards its controllability, since it excludes one instrument, namely certificates of deposit, which is subject to reserve requirements and whose behaviour, given its recent introduction, is not easy to forecast. This exclusion makes it more difficult for the central bank to anticipate changes in the relation between M2A and bank reserves. It is therefore necessary to continue to use a definition of money, such as M2, including all those components of the liquid assets of the non-state sector which are subject to compulsory reserves. (5)

The definition of M3 used until now, given by the sum of M2 and Treasury Bills (Table 3), sought to give an overall measure of liquid assets. The average duration of acceptances, not more than 12 months, and the virtual absence of risk of default at maturity, since any endorsements are made "without guarantee" and the function of principal obligor continues to rest with the accepting bank, led to the decision to include this financial instrument in M3, together with Treasury Bills. (6) Remaining excluded from this aggregate are certificates of deposit issued by the special credit institutions with an original maturity of over 18 months, bonds, atypical securities, units of Italian investment funds, shares and certain minor items: together these represent the medium and long-term component of domestic financial assets.

Table 3

Components of the non-state sector's M3

	Amounts at December 1984 (billions of lire)
M2 (as previously defined)	510,543
Treasury bills held by the non-state sector...	109,225
M3 total (as previously defined)...........	619,768
less:	
— notes and coin held by special credit institutions and autonomous government agencies, state sector c/c deposits with banks, and state sector savings deposits with banks	5,231
plus:	
— bank fund-raising with "repurchase agreements".....................	847
— acceptances held by the non-state sector	545
M3 total (as newly defined) (= new M2 + acceptances + Treasury bills)..........	615,929

Table 4

The non-state sector's liquid assets

(stocks in billions of lire)

	M1	M2A	M2	M3
1975 — Dec.	65,292	126,180	126,180	126,422
1976 — Jan.	64,900	127,326	127,326	127,519
Feb.	65,633	128,425	128,425	128,885
Mar.	66,981	130,462	130,462	131,019
Apr.	67,498	131,342	131,342	132,496
May	68,370	132,383	132,383	133,946
June	68,566	133,161	133,161	134,842
July	69,090	134,420	134,420	136,349
Aug.	69,180	135,565	135,565	137,582
Sept.	70,127	137,149	137,149	139,170
Oct.	71,518	139,500	139,500	142,175
Nov.	72,706	141,576	141,576	144,307
Dec.	78,130	152,429	152,429	155,229
1977 — Jan.	77,667	153,122	153,122	156,755
Feb.	77,776	154,035	154,035	158,410
Mar.	78,959	155,920	155,920	160,982
Apr.	80,357	157,926	157,926	163,439
May	81,239	159,452	159,452	165,821
June	81,873	160,471	160,471	167,454
July	83,789	162,921	162,921	170,413
Aug.	83,447	163,710	163,710	171,426
Sept.	84,400	165,271	165,271	172,714
Oct.	86,441	168,267	168,267	175,583
Nov.	86,247	169,093	169,093	175,984
Dec.	94,862	185,498	185,498	192,135
1978 — Jan.	93,475	184,818	184,818	192,280
Feb.	94,472	186,765	186,765	194,713
Mar.	96,836	190,042	190,042	198,228
Apr.	98,571	192,490	192,490	201,037
1978 — May	100,123	194,836	194,836	203,805
June	101,834	197,020	197,020	206,199
July	103,760	199,775	199,775	209,566
Aug.	103,315	200,640	200,640	210,704
Sept.	105,846	203,928	203,928	214,121
Oct.	107,061	206,092	206,092	216,939
Nov.	108,210	208,112	208,112	218,813
Dec.	119,329	227,457	227,457	238,018
1979 — Jan.	115,185	224,090	224,090	236,671
Feb.	117,614	226,796	226,796	240,850
Mar.	119,301	229,362	229,362	244,331
Apr.	121,722	232,451	232,451	248,101
May	123,930	235,165	235,165	251,451
June	125,017	236,907	236,907	253,389
July	129,198	241,853	241,853	259,122
Aug.	128,992	243,108	243,108	260,939
Sept.	130,065	244,958	244,958	263,171
Oct.	134,652	250,647	250,647	269,384
Nov.	137,045	253,920	253,920	273,585
Dec.	148,468	274,789	274,789	294,291
1980 — Jan.	141,430	267,869	267,869	292,745
Feb.	141,280	267,166	267,166	294,741
Mar.	143,886	269,587	269,587	299,407
Apr.	145,857	271,633	271,633	303,420
May	144,387	269,891	269,891	303,247
June	147,065	272,520	272,520	306,064
July	149,378	275,157	275,157	310,000
Aug.	146,896	273,954	273,954	309,328
Sept.	146,847	274,346	274,346	310,172

3. The behaviour of the new monetary aggregates in recent years

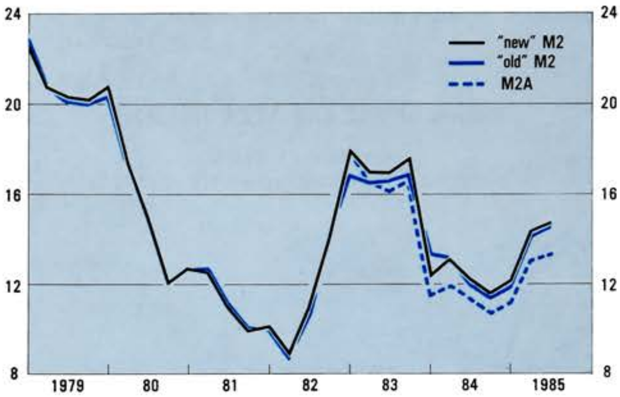
The data relating to the different measures of non-state sector liquid assets under the new definitions are given in Table 4.

The changes made in the definition of M1 were rather small and did not produce any notable changes in the behaviour of this aggregate in recent years. The old and new M2s also moved very similarly. The difference in their growth during 1982 was mainly due to the discontinuities introduced in the historical series by the inclusion of Repos (Figure 1); in December 1982, the first month for which the statistic was gathered, this form of bank fund-raising amounted to almost 4,200 billion lire. The introduction of a reserve requirement on Repos was followed by a notable fall in their outstanding volume, which amounted to only 819 billion lire at the end of 1983. This also helps to explain the more pronounced slowing down in the new M2 relative to that in the old during 1983 and at the beginning of 1984.

Figure 1

Growth rates of M2 and M2A

(% twelve-month changes; end-of-period data)



The increase in bank certificates of deposit following the coming into effect of the new regulations governing the remuneration of reserve requirements was reflected in the widening gap

Table 4 cont.

The non-state sector's liquid assets

(stocks in billions of lire)

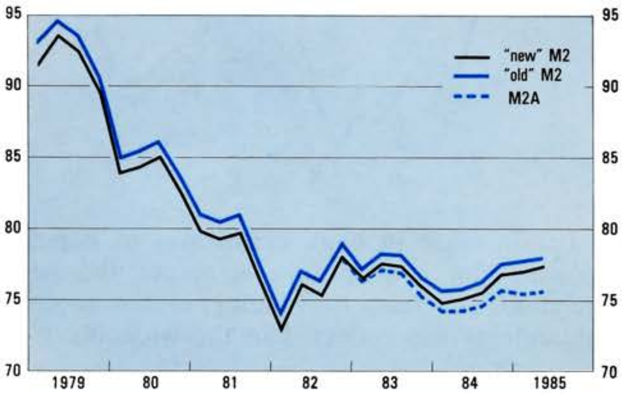
	M1	M2A	M2	M3
1980 — Oct.	150,163	278,291	278,291	314,740
Nov.	152,034	281,275	281,275	319,244
Dec.	168,498	309,804	309,804	346,636
1981 — Jan.	162,236	303,594	303,594	345,828
Feb.	162,019	302,496	302,496	348,459
Mar.	163,234	303,333	303,333	353,088
Apr.	162,999	302,331	302,331	355,034
May	162,082	300,852	300,852	355,954
June	163,787	302,359	302,359	358,919
July	163,869	302,204	302,204	362,859
Aug.	159,484	298,845	298,845	361,596
Sept.	161,838	301,338	301,338	366,076
Oct.	162,297	302,544	302,544	368,455
Nov.	162,610	303,663	303,663	370,787
Dec.	185,657	340,737	340,737	403,028
1982 — Jan.	177,210	332,051	332,051	401,372
Feb.	175,421	329,655	329,655	403,133
Mar.	175,311	329,934	329,934	405,805
Apr.	176,423	331,311	311,311	409,382
May	175,385	330,036	330,036	411,858
June	179,993	335,145	335,145	418,617
July	182,989	338,951	338,951	421,776
Aug.	180,676	338,581	338,581	422,999
Sept.	184,237	343,795	343,795	425,520
Oct.	186,844	347,808	347,808	426,661
Nov.	193,067	355,934	355,934	433,013
Dec.	216,639	402,226	402,226	475,559
1983 — Jan.	206,384	391,104	391,104	469,335
Feb.	203,185	386,754	387,031	468,701
1983 — Mar.	202,649	384,785	385,634	469,588
Apr.	203,370	385,353	386,756	471,442
May	201,139	382,725	384,814	472,132
June	207,011	389,222	391,732	479,342
July	211,934	395,224	398,090	484,850
Aug.	210,959	396,330	399,430	488,024
Sept.	214,817	401,013	404,210	493,168
Oct.	216,454	403,492	406,809	496,768
Nov.	214,131	401,939	405,182	497,900
Dec.	244,650	448,405	451,662	540,243
1984 — Jan.	232,946	436,304	440,828	538,551
Feb.	227,969	429,094	434,278	536,485
Mar.	230,116	430,479	435,958	539,247
Apr.	230,994	431,243	436,863	541,353
May	228,715	429,059	434,940	542,430
June	233,114	433,360	439,516	546,834
July	236,556	438,344	444,754	552,739
Aug.	233,596	437,356	443,960	554,318
Sept.	238,120	444,027	450,729	561,921
Oct.	241,294	447,933	455,031	568,998
Nov.	241,182	449,276	456,561	573,143
Dec.	275,095	498,626	506,159	615,929
1985 — Jan.	266,818	492,280	502,173	615,802
Feb.	260,503	484,665	495,846	614,373
Mar.	262,229	486,362	498,316	616,984
Apr.	264,033	489,006	501,375	623,277
May	259,997	484,941	497,770	624,446
June	265,296	490,424	503,623	631,738
July	270,114	496,535	509,377	639,800
Aug.	268,259	496,588	509,355	641,344

between the rates of growth of M2 and M2A during 1983; the gap remained more or less stable during 1984 and rose appreciably in the first six months of 1985, when certificates of deposit increased at an annual rate of about 75%.

Figure 2

Ratios of M2 and M2A to GDP

(percentages based on seasonally adjusted quarterly averages)



Between 1979 and 1981 the rate of increase of the new M3 was consistently higher than that of the old, due to the growth of bank acceptances following the reduction in stamp duty. The difference between the two later narrowed when limits on the issue of acceptances were imposed by the supervisory authority and when the interest on this form of financial investment became subject to tax. Comparison between the old and new M3s in 1982-83 is influenced, though obviously to a lesser degree than in the case of M2, by the behaviour of Repos transactions. The two aggregates grew at very similar rates in 1984 and first half 1985.

In relation to GDP, the new measure of M2 remained constantly below the old one (Figure 2); the funds raised by Repos were in fact notably less than the liquid assets of the state sector. Both aggregates showed a strong rise in income velocity between June 1979 and March 1982 as the process of bank disintermediation accelerated; a fall in the following eighteen months and a new, modest, rise between September 1983 and March 1984. The increase in the money/income ratio (a decline in velocity) between March 1984 and June 1985 was of about two percentage points for both definitions of M2. In relation to GDP, M2A increased by one and a half percentage points between first and fourth quarters 1984 and remained substantially constant in first half 1985.

---

(1) To narrow this gap, the historical series relating to bank notes and coins held by the special credit institutions and by the autonomous government agencies had to be constructed, as did those for the bank deposits, on both current and savings account, of the state sector. For some of these series, data only become available with some months' delay; their updating is based on estimates. A description of the methodologies used will be published in the Bollettino Statistico, together with the historical series of the monetary aggregates under the new definitions.

(2) The state sector includes the Treasury, the Deposits and Loans Fund, the Southern Italian Development Fund and autonomous government agencies.

(3) After December 1982 this form of fund-raising was subject to the reserve requirement with a coefficient and yield identical to those on the compulsory requirement for deposits.

(4) For symmetry, securities bought by the banks by reverse repurchase agreements were added to those held by the non-state sector. These operations were included in finance to the non-state sector by commercial and savings banks, as was already done for settlement operations.

(5) It should be noted that a monetary aggregate is also relevant as an indicator of the banks' capacity for credit expansion; M2, which is the widest possible definition, seems more appropriate than M2A for this purpose.

(6) This last aggregate thus becomes very similar to the United States' designation "Liquidity", which includes commercial paper and bankers' acceptances as well as marketable Treasury securities with less than two years to maturity.

The inflation adjustment of financial balances

1. The definition of "adjusted" balances

Financial balances are the differences between the financial assets and liabilities accumulated by a sector (1) in a given time interval. These balances can be defined, in principle, also in terms of the national accounts. In fact, if the methodological differences between the national income statistics and financial accounting are set aside, changes in the financial wealth of any sector correspond to its own total saving minus its investment in real assets. Positive balances, like those of households, are called financial saving and negative balances, such as those normally characterising the public sector and firms, net borrowing. The algebraic sum of the financial balances of domestic sectors, corresponding to the difference between aggregate saving and domestic investment, coincides with the current account of the balance of payments.

Economists generally agree that the interpretation of the behaviour of economic agents who, at least in the medium run, are supposed to show no monetary illusion, is distorted in inflationary periods by the use of conventional financial balances. In fact, the latter take no account of the losses (gains) in purchasing power for holders of net financial assets (liabilities) due to price increases. Failure to take these losses and gains into account also implies that sectoral incomes in conventional accounts are biased: upwards for creditor sectors, downwards for debtors.

The argument is based on the definition of real income, originally proposed by Hicks (2), as the amount that an individual can consume while keeping his wealth intact in real terms. Hicks's definition was, in reality, more complex, since his analysis centred on the expected value (ex-ante) of income, distinguishing it from that in fact realised (ex-post). The translation of this distinction into empirical terms has, however, proved extremely complex (3) and, inevitably, subjective. This article makes no attempt in this direction; it is concerned with statistical-accounting problems rather than economic and interpretative ones and therefore considers only ex-post variables.

The estimation of the capital gains/losses resulting from a rise in the general price level is very complex, especially when, as in Italy, conventional "balance sheets" giving information on the financial and real assets and liabilities of the various agents are still lacking. For example, it is well known that inflation can cause a revaluation of the real capital goods (houses, plant, equipment and so on) forming the greater part of the wealth of households and enterprises.

Beginning in the late seventies, various studies (4) have proposed in theory, or shown in operational terms, the advantages, however partial, of explicitly considering the effects of inflation on, at least, financial wealth by means of the calculation of suitably "adjusted" financial balances and incomes. This article is one of these.

Closely connected, but not coincident, with the revised concept of financial balances is that of the transfer of wealth caused by inflation. In fact, the redistribution from net creditors to net debtors that the movement of prices implies can be offset, at least in part, by the renumeration of financial assets implicit in the money rate of interest. Other things being equal, and starting from a situation of constant prices, if the money rate of interest rises exactly in proportion to inflation, so that the real interest rate remains unchanged, the transfer of wealth is simply annulled: the creditor regains via the higher nominal interest rate exactly what he loses in terms of purchasing power. Such conditions would produce statistical distortions in the measurement of financial balances and sectoral incomes, but not real transfers of wealth.

Indeed, the notion of transfers due to inflation is very complex. It implies that the real interest rate which would result in no transfer of wealth can be identified and measured. The conceptual and empirical difficulties connected with such a measurement have led to arbitrary but simple solutions being found for the problem. Most studies on the subject implicitly adopt that of considering the theoretical real interest rate, in the presence of which there is no transfer of wealth, as being equal to zero. An alternative would be to assume, for example, that this theoretical rate is equal to the normal rate of growth of GDP. The passage from one hypothesis to the other, or to any other preferred, is immediate and therefore the estimates presented here, which assume the rate to be nil, can serve as a starting point for calculations based on varying hypotheses.

The estimates of adjusted balances and of the transfers of wealth presented in this paper use the sectoral definitions adopted in the Bank of Italy's financial flows; the latter, following national accounting criteria, consider the Bank of Italy, including the Italian Exchange Office (UIC), among "financial intermediaries", separating it from the public sector. This distinction is not, however, satisfactory for the analysis of the processes of the exaction and redistribution of resources between the various final users. Financing public expenditure, whether by taxation, the issue of interest-bearing public debt or the creation of money is basically the responsibility of the political authority in the broad sense. The estimates obtained by consolidating the public sector and the central bank are therefore also given, so as to have a more correct measure of the so-called "inflation tax", defining the latter as the resources lost from the private to the public sector in consequence of the rise in the general price level. The usefulness of this concept arises first from the fact that some liabilities of the public sector so defined bear nominal fixed interest rates (nil on currency and 5.5 and 9.5 per cent respectively on the compulsory reserve on deposits and on bank certificates of deposits held with the Bank of Italy).

2. The results of the estimates

2.1. The above concepts became of practical importance as inflation accelerated during the seventies.

Table 1 gives estimates for the main sectors (households, firms and the public sector) ([5]) and brings out the importance of the phenomenon.

Table 1

Financial balances

(% of GDP)

	Households		Firms		Public sector		Public sector and Bank of Italy	
	"Adjusted" balances	"Conventional" balances	"Adjusted" balances	"Conventional" balances	"Adjusted" balances	"Conventional" balances	"Adjusted" balances	"Conventional" balances
1976	−0.6	13.9	−1.3	−8.3	2.1	−10.0	1.0	−9.8
1977	4.7	13.9	0.3	−4.0	−1.5	−9.2	−2.4	−9.1
1978	7.6	15.6	−0.3	−3.6	−3.6	−10.3	−3.6	−10.1
1979	1.0	14.3	2.4	−2.4	0.9	−10.2	1.1	−10.0
1980	−2.1	12.2	−2.5	−7.6	1.9	−10.1	2.7	−9.6
1981	1.6	13.8	−1.9	−7.2	−3.0	−13.6	−2.3	−13.1
1982	3.1	14.6	−0.2	−3.9	−4.1	−14.7	−3.6	−14.0
1983	6.9	16.3	−1.6	−4.4	−5.3	−14.3	−5.0	−13.9
1984	9.2	16.7	−1.9	−4.0	−8.3	−15.6	−7.7	−15.1

Comparison of the "adjusted" — the method of adjustment is discussed below — and the conventional series reveals widely varying levels and movements. The differences are very marked in the years of highest inflation: in 1980 the "conventional" public sector balance showed a deficit equal to 10 per cent of GDP while the "adjusted" estimate revealed a 2 per cent surplus ([6]). That is, the rise in net borrowing in that year did not even compensate for the inflation-due loss in purchasing power to the stock of the public debt. The same applies, to a lesser quantitative extent, to firms. Conversely, whereas households, the most important creditor sector, showed a surplus amounting to 12 per cent of GDP in conventional terms, their adjusted financial saving was negative to the extent of 2 per cent of GDP. In other words, the accumulation of net financial assets in that year was not even sufficient to reconstitute financial wealth in real terms: this could only have been achieved by investing an even larger share of disposable income in financial assets. The differences between the conventional and adjusted measurements are smaller in years of lower inflation but are noteworthy for the nine years taken as a whole.

Not only levels but also movements can be very different according to the yardstick used: between 1980 and 1984, the public sector's financial deficit, conventionally measured, worsened by about 5-1/2 percentage points; the deterioration was more than 10 per cent on an adjusted basis.

Consolidation of the accounts of the Bank of Italy and the Italian Exchange Office with those of the public sector involved, on the one hand, including the monetary base among financial liabilities and, on the other, excluding the Bank of Italy's holdings of interest-bearing public debt. The behaviour of the "adjusted" consolidated balances showed a substantial change from 1980 onwards: real net borrowing was consistently lower than when the public sector was defined more narrowly.

2.2. In considering these results it should be noted that the "adjusted" balances are based on more approximate estimates than are the conventional ones, because calculation of the former involves a number of operational decisions.

First is the question of what rate of inflation should be used: a single price index applied to all sectors or specific indices for each sector. The difference is important: use of the former focuses attention on movements in the general price level and, unlike the latter, neglects relative price movements. The arguments in favour of the first solution have been put forward by Cukierman and Mortensen ([7]). The consumer price index is that most commonly used, on the grounds that it is the most relevant to the final users of resources. This solution was adopted in the estimates presented below.

Another important choice concerns the financial instruments to be included in calculating the balances and the net financial assets on which the erosion of purchasing power is to be evaluated. The criterion followed was to consider only lira-denominated instruments with a fixed monetary value, excluding, that is, shares and other equities, the actuarial reserves of insurance companies and social security agencies, foreign-denominated assets and liabilities ([8]) and securities indexed to the general price level. However, because the last-named were of minor importance, they were not excluded.

Although most studies agree that use of the market price of securities is preferable when correcting for inflation, the lack of suitable data caused nominal values to be used, as in the financial accounts of the Bank of Italy.

The formula used in calculating the "adjusted" balances was as follows ([9]):

$$S^*_t = S_t - p_t \,.\, W_{t-1} - p^*_t \,.\, S'_t$$

in which:

S^*_t is the "adjusted" balance of year t

S_t is the conventional balance, comprising all financial t instruments

p_t is the consumer rate of inflation between December of year t−1 and December of year t

W_t is the stock of net financial wealth in December of year t, excluding all financial instruments without a fixed monetary value in lire

p^*_t is the rate of inflation between June and December of year t

S'_t is the conventional balance net of the financial instruments excluded from W_t ([10]).

In the formula, the expression ($p^*_t \cdot S'_t$) is used to take account of the loss of purchasing power on the flow of net financial wealth in the year considered whereas ($p_t \cdot W_{t-1}$) measures the loss on the stock at the beginning of the year.

The annual historical series used to correct the conventional balances according to the formula are given in Table 3.

2.3. It was seen above that, in principle, the correction to be made to the conventional balances is a different thing from the transfers of wealth that inflation causes.

Table 2 shows that transfers of wealth were substantial in the past, and particularly so in periods of strong inflation, even though the nominal interest rate acted to compensate, at least in part, for the loss of purchasing power. In the year discussed above, 1980, households' loss of purchasing power was equivalent to 14.3 per cent of GDP but, if interest flows are taken into account, the transfer of wealth was "only" 8.2 per cent. The transfers to the public sector were, on the other hand, equal to 6.2 per cent of GDP, or 7.8 per cent if the sector is consolidated with the Bank of Italy.

Table 2

Transfers of wealth caused by inflation

(% of GDP)

	Households			Firms			Public sector (*)			Public sector and Bank of Italy		
	(a)	(b)	(c) = (a) + (b)	(a)	(b)	(c) = (a) + (b)	(a)	(b)	(c) = (a) + (b)	(a)	(b)	(c) = A) + (b)
1976	−14.4	4.7	−9.7	6.9	−6.0	0.9	12.1	−4.4	7.7	10.8	−2.3	8.5
1977	−9.2	5.8	−3.4	4.2	−5.9	−1.6	7.7	−4.8	2.9	6.8	−3.0	3.8
1978	−8.0	5.6	−2.4	3.3	−5.7	−2.4	6.7	−5.2	1.6	6.5	−3.8	2.7
1979	−13.3	5.7	−7.7	4.7	−5.3	−0.6	11.1	−5.4	5.7	11.0	−4.3	6.8
1980	−14.3	6.1	−8.2	5.0	−6.1	−1.1	12.0	−5.8	6.2	12.4	−4.6	7.8
1981	−12.1	7.2	−4.9	4.3	−6.5	−2.2	10.6	−6.9	3.7	10.7	−5.6	5.2
1982	−11.4	8.5	−2.9	3.7	−6.2	−2.5	10.5	−8.3	2.3	10.4	−7.0	3.4
1983	−9.4	8.8	−0.6	2.7	−5.6	−2.9	9.0	−8.8	0.1	8.9	−7.6	1.2
1984	−7.5	9.2	1.7	2.0	−5.3	−3.2	7.3	−9.6	−2.4	7.4	−8.5	−1.1

(a) Loss (−) or gain (+) of purchasing power.
(b) Net interest received (+) or paid out (−).
(c) Transfers of wealth assuming that the real interest rate which does not give rise to transfers of wealth is equal to zero.
(*) Net of interest paid by the public sector to the Bank of Italy and refunded by the latter. Data are not strictly comparable with those of the national accounts because of the aggregation of interest flows.

Up to 1980, firms bore a higher interest burden than did the public sector. The reduction in this burden as from 1982 was less than that due to the depreciation of lira-denominated debts, so that the transfers of wealth in favour of other sectors grew continuously, reaching a maximum in the last year considered, 1984. It should be noted that, owing to lack of data, the estimates of flows of interest payments in this article disregard fiscal aspects. If the fact that debt interest was tax-deductible were taken into account, firms' financial burdens would be notably lighter.

Another interesting point made clear by Table 2 is that transfers of wealth lessened over the years considered, to the point where, in 1984, the signs reversed themselves in the case of households and of the public sector. This was attributable in part to the fall in the rate of inflation, but also to the greater protection afforded by the nominal interest rates against the erosion in purchasing power. This protection in its turn was in good measure due to changes in the composition of financial assets, with short-term assets or those characterised by inflation-linked rates of interest becoming predominant.

3. Analytic significance and implications for economic policy

The proposition that purchasing power gains and losses should be taken into account when calculating the financial balances and incomes of the various sectors has solid roots in economic theory and, for the past few years, in practice as well ([11]).

Nonetheless, it is not easy to proceed from this statement to analytic conclusions on the significance of this concept and to economic policy judgements. The difficulty can be illustrated by considering the adjusted public sector deficit, whose value was considerably less (Table 1) than the conventional one in the period under discussion. Any immediate conclusion that this lower value makes less urgent the readjustment of public sector accounts is not only unjustified but misleading.

In the first place, though the revised public sector deficit was lower, adjusted household savings were also less, with the result that the pressure of the former on the latter remained more or less unchanged. Secondly, in periods of decelerating prices, the adjusted figures can reveal a deterioration in public sector accounts when, on conventional accounting criteria, they were stable or even improving. This in fact happened in the two years 1983-84, when conventional accounts showed only a modest deterioration whereas the revised ones worsened considerably.

It should also be remembered that the adjusted deficit is affected not only by fiscal but also by monetary policy. In fact, a negative balance between budget revenues and expenditure can be financed, though to a partial extent and for a limited period, by a monetary policy which, via inflation, lowers real interest rates and, at the same time, hits holders of the monetary base; this happened in several countries, including Italy, in the seventies and very early eighties. These tactics can be viewed as being basically similar to an extraordinary tax on wealth and, as such, as having only temporary efficacy.

The experience of the eighties suggests that the present and expected level of real interest rates, in Italy as in other industrialised countries, and the changes in financial structure during the period, have sharply curtailed the margins for such a manoeuvre since, as Table 2 evidences, the holders of financial assets are now much more aware of inflation and better shielded from it.

Some economists have generalised and conceptualised such considerations; they suggest that, for the purposes of the economic analysis of the effects on aggregate demand of public sector deficits and of the other corrected variables, as, for example, disposable income, that part of the adjustment which may be considered as an extraordinary inflation tax should be excluded from the analysis. In synthesis, these authors suggest that only the "normal" and permanent component of the adjustment should be considered, and the temporary and transitory should be excluded ([12]). They propose, in practice, that the adjusted deficit and other magnitudes should be calculated using a normal or long-term real interest rate which, as such, is less unstable, rather than the actual ex-post rate, which is in fact extremely volatile. Such a method produces more stable values of "adjusted" public deficits.

This type of proposal with respect to the methods commonly used in "adjusting" for inflation is only a particular aspect of broader considerations relating to the subject of "permanent income" according to which, at least in the medium run, economic agents, not subject to monetary illusions, decide their behaviour on the basis of the expected path of the relevant variables.

In conclusion, though having in mind all the caution required for the choice of criteria underlying empirical estimates, inflation-adjusted financial balances measure the change in the real financial wealth of the various sectors, eliminating the mixing up of income and capital

Table 3

Financial stocks and flows (*)

(billions of lire)

	Net financial assets, beginning of the year (W_{t-1})				Financial balances (S_t)				Consumer rate of inflation (%)	
	Households	Firms	Public sector	Public sector and Bank of Italy	Households	Firms	Public sector	Public sector and Bank of Italy	Annual rate (p_t)	Six-monthly rate (p_t^*)
1976	93,845	−45,251	−78,757	−69,384	19,842	−9,236	−17,013	−16,613	22.0	10.1
1977	113,817	−54,574	−96,191	−83,718	24,749	−6,514	−18,945	−18,909	14.1	5.7
1978	138,945	−61,197	−117,013	−113,255	32,324	−3,002	−26,035	−25,634	11.6	5.3
1979	171,781	−64,254	−143,824	−143,375	36,598	−6,904	−28,879	−28,403	18.8	10.1
1980	209,234	−71,197	−172,866	−179,364	37,112	−18,389	−37,256	−35,621	21.3	10.4
1981	247,204	−89,603	−210,076	−214,751	51,305	−14,483	−57,257	−55,182	18.1	7.7
1982	299,534	−104,075	−267,472	−265,431	64,148	−6,497	−74,268	−70,909	16.1	8.6
1983	364,883	−110,385	−342,665	−339,403	82,823	−14,053	−88,031	−85,836	12.6	5.8
1984	448,726	−124,410	−431,570	−438,161	94,998	−18,725	−102,824	−99,465	9.4	4.0

(*) Statistical series on which the estimate of financial balances adjusted according to the formula on p. XX is based. Net financial assets and financial balances do not include shars and equities, actuarial reserves and foreign-denominated financial instruments.

accounts. They therefore furnish indispensable basic information, which can naturally be further improved, for a better understanding of the behaviour of economic operators.

---

(1) The financial accounts of the Bank of Italy consider the following sectors: Households and non-profit making institutions, Firms, Bank of Italy and Italian Exchange Office, Commercial banks, Special credit institutions, Insurance companies, and (from 1984) Mutual investment funds incorporated under Italian law, Public Sector (distinguishing Central Government Bodies, Local Authorities, Autonomous Agencies and Social Security Institutions) and Rest of the world plus a residual sector for unclassified items.

(2) J. R. HICKS, *Value and Capital,* 2nd ed., Oxford University Press 1946, and, for an early attempt at practical application, J. Meade and R. Stone, "The Construction of Tables of National Income, Expenditure, Savings and Investment," *The Economic Journal,* 1941.

(3) See A. CUKIERMAN, K. LENNAN and F. PAPADIA, "Inflation induced Redistributions via Monetary Assets in Five European Countries: 1974-1982", EEC Economic Papers No. 41, September 1985.

(4) The adjustment for inflation of financial balances was first applied by C. T. Taylor and A. R. Threadgold: "Real National Saving and Its Sectoral Composition", Bank of England, Discussion Paper No. 6, 1979. In Italy, after the pioneering work of P. Baffi, "Il risparmio in Italia oggi", *Bancaria,* Feb. 1974, other contributions are: F. Cotula — P. de Stefani, *La politica monetaria in Italia,* Il Mulino 1979; R. S. Masera, "La funzione aggregata di imposizione fiscale (entrate esplicite e da inflazione) e il vincolo di bilancio: modelli di stato stazionario", in *Disavanzo pubblico e vincolo di bilancio,* Banca Commerciale Italiana, 1979; F. Cotula and R. S. Masera, "Risparmio privato, deficit pubblico e imposta da inflazione", *Economia Italiana* n. 3, 1980; C. Caranza and M. Villani, "Saldi finanziari reali: un tentativo di stima per l'Italia, a preparatory study for the 1980 Annual Report of the Bank of Italy"; F. Cotula, R. S. Masera and G. Morcaldo, "Il bilancio del settore pubblico e gli effetti di spiazzamento: un esame dell'esperienza italiana", in *Spesa pubblica e sviluppo dell'economia,* Banca Commerciale Italiana, 1983; G. Salvemini, "Distribuzione degli interessi sul debito pubblico e andamento del fabbisogno in condizioni inflazionistiche", *Rivista internazionale di Scienze sociali,* nos. 2-3, 1984; L. Spaventa, "The Growth of Public Debt in Italy: Past Experience, Perspectives and Policy Problems", *Banca Nazionale del Lavoro Quarterly Review,* June 1984; G. Morcaldo and G. Salvemini, "Il debito pubblico: analisi dell'evoluzione nel periodo 1960-83 e prospettive", *Rivista di Politica Economica,* Nov. 1985; "Dove va la struttura finanziaria italiana?", *Tendenze monetarie,* July 1985.

(5) The balances both conventional and "adjusted" for the set of the remaining institutional sectors (Commercial banks, Special credit institutions, Insurance companies, Rest of the world and the residual sector) can be derived implicitly, given the zero-sum constraint for the sectors as a whole.

(6) The Public sector, as defined in the Bank's financial flows, differs from that adopted in the national accounts by the inclusion in the former of the Autonomous Agencies producing for the market (Railways, Post, State Monopolies, Telephones). Moreover the financial balance includes the changes in the actuarial reserves of the Social security institutions.

(7) A. CUKIERMAN and J. MORTENSEN, "Monetary Assets and Inflation Induced Distortions of the National Accounts", EEC Economic Papers No. 15, June 1983.

(8) Purchasing power parity is implicitly assumed to hold: that is, that the inflation differential with the Rest of the world is on average compensated for by a behaviour of the lira exchange rate making a de facto indexation of foreign-denominated assets and liabilities to domestic prices.

(9) This follows, given the hypothesis of linear price rises, from the formula in discrete time proposed in Cotula-Masera *op. cit.*

(10) The financial balance of the Bank of Italy and the Italian Exchange Office is an exception. Since it is arrived at directly from the balance sheets of the two bodies and not as the difference between flows of assets and liabilities, the foreign-currency and gold-denominated financial instruments cannot at present be distinguished from the rest.

(11) See the studies presented at the conference on "Economic Policy and National Accounting in Inflationary Conditions", Dorga, Jan. 1984 to be published in the *Journal of Banking and Finance.*

(12) See, for example, M. Miller, "Inflation Adjusting the Public Sector Deficit: Measurement and Implications for Policy" in *The 1982 Budget,* J. Kay, ed. Blackwell, 1982.

Speeches

The Institutional Framework and Aims of Exchange Rate Policy in the Italian Economy

by Carlo A. Ciampi, Governor of the Bank of Italy
Address to the 28th National Congress of the Italian Forex Club
Milan, 26 October 1985

It is a great pleasure for me to be with you again this year, in what is by now a veritable tradition. A large part of my address will treat a subject of immediate interest to you as foreign exchange dealers: exchange policy and the guidelines for exchange rate management. This topic will be prefaced by some remarks on the latest developments in the debate on the international monetary system. And as in years past I shall conclude with an examination of the present condition and future prospects of the Italian economy.

Signs of change in international monetary and financial relations

The disequilibria of the international system constitute a serious obstacle to growth and stability. Clear manifestations are the US payments deficit on current account, the overvaluation of the dollar, and the heavy external indebtedness of many countries. Partly as a result of these disequilibria, the world economy would appear, even though inflation has been reduced, to be tending toward a pace of growth too slow to break out of what looks more and more like a high-unemployment equilibrium for the medium term.

International monetary strains, in turn, have a variety of causes, and eliminating them will require a sophisticated strategy. This was again the object of discussion a few weeks ago at the annual joint meeting of the International Monetary Fund and the World Bank in Seoul.

The pursuit of more stable international monetary arrangements presumes a critical review of the beliefs and attitudes evinced until now by certain major countries.

It is satisfying to note that at Seoul some steps were taken in the direction we have long advocated.

First of all, it was recognized that there are profound disequilibria in the exchange rates of the major currencies, and that their origins lie in divergent monetary and fiscal policies and in the ascendancy of financial transactions in determining exchange rates. It was also recognized that persistent fundamental current account imbalances sap the very foundations of free trade, generating protectionist pressures. It was further agreed that when the market has driven exchange rates far from levels consistent with economic fundamentals, concerted intervention by the central banks can play an important role in bringing them back towards equilibrium. Finally, it was acknowledged that if the problem of international debt is to be solved, certain trends must be reversed — notably, lending by the multilateral development banks must be expanded and the industrial countries must show greater willingness to expand imports, credits, and foreign aid.

Our satisfaction at seeing the validity of these theses recognized today is tempered, however, by the realization that contradictions and uncertainties remain, while the time for practical action has begun to run short.

For instance, it was decided to reduce the annual and cumulative limits on "enlarged access" to IMF resources. Yet putting constrictions on the Fund's operational capacity is manifestly inconsistent with the systemic needs I have just mentioned. If anything, the guarantee of rigorous conduct by the Fund is to be sought by making sure, within the Executive Board, that standards of prudence and soundness continue to govern the granting of loans.

There is an increasingly broad consensus that the World Bank and its agencies should play a bigger role in financing more balanced growth in the developing countries, in cooperation with the Fund. Yet there continues to be delay in increasing the capital of the Bank and replenishing the resources of the International Development Agency.

The multilateral character of surveillance of the economic policies of the leading industrial countries needs to be reinforced, not weakened. This is the path to an effective recognition of the international repercussions of the domestic economic policies of individual countries, hence to their modification in order to enhance convergence and with it exchange rate stability. And looking to the future, this is also the way to lend operative substance to plans to institute target zones for exchange rates between the main currencies.

The modest and uncertain growth of the industrial economies continues to have especially negative repercussions on the most heavily indebted producers of raw materials. The adjustment efforts that many of them have made risk being undone, and the social costs of the adjustment are heightened. If these countries are to avoid the resurgence of a climate of mistrust, the actions of the industrial countries will need to reflect full awareness of the links within the debtor nations between debt servicing and exports.

Finally — noting that on this point we are still in a minority — we remain convinced that the processes of international liquidity creation should be strengthened, including the regular issue of SDRs by the International Monetary Fund.

These issues are now under consideration by the IMF Executive Board with a view to next spring's meeting of the Interim Committee. The report drafted by the Group of Ten industrialized countries and the one prepared by the Group of 24 developing countries outline practicable ways to revise the system and offer a specific foundation on which to base the necessary decisions.

The economic foundations of exchange controls

How, within this complex framework, can exchange policy in the broadest sense help overcome domestic and international disequilibria?

Over the years, discussion of the costs of protectionism has established a broad consensus in favour of free trade in goods and services. The Bretton Woods agreements, the institution of GATT, the Coal and Steel Community and the EEC, and later the Kennedy Round, fostered and sanctioned the unfolding liberalization of trade in Europe and worldwide. Today, recrudescent protectionist measures or pressures in some countries, including the United States, are a source of profound concern. The danger is that particular interests and special pleading, reinforced by badly misaligned exchange rates, may bring about a general reversal of the positive choices made in the past.

Whereas the appreciation of the advantages of the free movement of goods and services is general, judgements on the free movement of capital have varied over time and are still not unanimous. Between the two extremes — an uncritical faith in the free workings of the market on the one hand, an outright opposition to international financial integration on the other — there is room for a middle course, sensitive to the objective of efficient resource allocation but aware of the constraints imposed by economic logic and institutional arrangements.

We need to ask, with no preconceived answers, why so many countries still feel bound to set limits to external financial transactions, whether these reasons are still valid, and in what conditions the limits can be removed. We must begin with a clear understanding of the terms of the issue — an analytical understanding, and as such neither laissez-faire nor dirigiste.

The scale and speed of international flows of goods, services, labour and capital differ structurally. They are more pronounced for capital, and increasingly so. The rigidity of wages and prices and the poor mobility of labour, together with the ever greater mobility of private capital, mean that the "real" markets respond more slowly than the money and financial markets to shifts in underlying trends or destabilizing impulses. The different response times of the various markets aggravate payments imbalances and exchange rate volatility. Specifically, the mobility of capital narrows the differentials between domestic and international interest rates and restricts the freedom of action of monetary and fiscal policy. By giving rise to a prolonged divergence of exchange rates from levels consistent with economic fundamentals, capital mobility alters the structure of production and generates trade tensions and protectionist pressures. The experience with the dollar in recent years confirms that these linkages can work against long-run equilibrium.

In a system of interdependent economies, it is impossible to reconcile stable exchange rates, free trade in goods and services, and untrammeled capital mobility with fully independent and mutually incompatible economic policies. On the other hand, the desired degree of coordination between the various countries' economic policies encounters institutional obstacles. Ideal solutions being slow to emerge, sub-optimal ones are enacted, varying from country to country according to their size, degree of openness, economic structure and policy decisions.

Keynes, albeit with the reluctance of a liberal spirit, concluded that in an imperfect world "it would be wiser to perfect the control than to abandon it". (1) He suggested taxing the interest on foreign bond issues not authorized by the Bank of England. More recently, along the same lines, Tobin has advised us "to throw some sand in the wheels of our excessively efficient international money markets". (2)

Particularly in a medium-sized economy like Italy's, with a high degree of external openness but too large for *de facto* integration into the production structure and economic policies of neighbouring economies, international openness cannot brook impediments to the exchange of goods and services. The complement to openness is a system of stable, albeit adjustable, exchange rates. In external economic relations, these are indispensable conditions. To obtain them, it may prove necessary to employ some mechanisms to slow down capital movements and especially those short-term flows most prone to heed the call of changing expectations.

Though with varying emphasis, recognition of the need for controls is found in the statutes and codes of the EMS, the OECD, GATT, and even the EEC, with its provisions for safeguard clauses.

Since they must serve such general ends as balance-of-payments equilibrium, the effectiveness of monetary policy and the stability of the banking system internationally, controls on capital movements should be as open and as allocationally neutral as possible. Above all they must be kept to the absolute minimum and designed for easy, nearly automatic removal in parallel with progress in implementing the ideal solution, which consists in strengthening the institutions and procedures for coordinating economic policies internationally.

Between the countries of the most economically integrated regions, more vigorous efforts to achieve full financial as well as trade integration are both conceivable and desirable. This applies to the European Community, whose founding treaty enshrines that objective. Its attainment would mean more efficient resource allocation and higher living standards at the regional level, as well as more freedom. It would also mean the establishment of the conditions for better monetary and financial relations between the major areas of the world economy. The economic and institutional logic governing the actions of individual countries would be shifted to the Community. This implies the further strengthening of the European Monetary System and of the procedures for policy coordination, the full acceptance of mobility for labour as well as for capital, and the transfer to the Community level of the instruments for the control of capital movements that would still be required.

The experience of the EMS confirms the benefits that can flow from this course. The monetary and exchange rate agreements constitute an advance towards monetary relations based on more operative, effective coordination of the main economic policy lines of the member countries. Domestically, they have also spurred a partial dismantling of controls on the movements of capital, in keeping with the principle of positive feedback between economic and financial integration.

Steps toward the reform of Italian exchange controls

The guiding principle of legislation in this field must be to attenuate and above all to rationalize the system of exchange controls. Although not lacking in consistency between means and ends or flexibility, the present system still bears the imprint of the economic difficulties and dirigiste philosophy that influenced its formulation. It has taken over from pre-war legislation the principle of "exchange monopoly", albeit in forms that have become less rigid with time.

The characteristic features of the system are the heterogeneousness of the underlying legislation, the mass of administrative provisions, the inadequate notification of the latter, and the fragmentary nature of the general authorizations and prohibitions that are issued from time to time. The outcome is opacity and excessive costs.

Recourse to penal law is still on a scale that was probably justified in periods of economic emergency, but which should now be restricted to cases of special gravity. The imposition of penal sanctions and the ensuing problems of exegesis have further highlighted the limits of today's secondary exchange control legislation, designed to complete the definition of exchange control offences.

The bill for the reform of exchange controls approved by the Senate and now being examined by the Chamber of Deputies seeks to restore the necessary conditions of clarity and certainty while attenuating the controls themselves.

The bill entrusts delegated legislation with the tasks of determining the constraints that can be imposed by decree and identifying the aims to be pursued by means of limits and exceptions. These regulations will be required to lend clear economic and economic policy substance to the principle that all is permitted except what is expressly forbidden.

In the meantime the scope for flexibility in the existing legislation is being exploited to bring the overall impact of the controls back within the limit considered acceptable and to remove those controls that no longer serve an economic policy purpose.

This will accelerate some of the benefits inherent in the broader reform of the Italian exchange control system that is being prepared.

The process of simplifying procedures and loosening constraints embarked on five years ago has gathered speed in recent months.

The administrative provisions on exchange control have been reorganized and the overall body of secondary sources made more widely available. The regulation of external settlements and financial dealings was dealt with in the Ministerial Decree of 12.3.1981, that of commercial operations in the decree issued last July. With the latter's entry into force as of 18 November of this year nearly half the total number of commercial transactions will not require exchange control forms. The range of operations for which bank controls are conducted *a posteriori* has been increased and verification functions have been decentralized to agent banks on a significant scale.

Further changes in the field of current transactions include: the definition of the scope of banks' control of legitimacy; the attribution of greater weight to businessmen's declarations; the lengthening of the permitted terms of payment for goods and services; the abolishment of the annual ceiling on tourist allowances.

As regards capital movements, Italian investment funds have been granted limited exemption from the deposit requirement on purchases of foreign securities.

The monetary authorities recently announced their willingness to see a lira Eurobond market develop. This will be aimed at issues by non-residents and the financing of productive investment in Italy. The growth of such a market will increase and consolidate the stock of Eurolire, which currently consists only of bank deposits.

In the last few days the Minister of Foreign Trade, in agreement with the monetary authorities, has introduced a new series of measures, including the abolishment of compulsory foreign currency export financing and the further reduction, to 25 per cent, of the deposit requirement on portfolio investments abroad — unchanged since 1973, this rate has now been halved in just ten months. Simultaneously, the Italian Foreign Exchange Office has taken steps to broaden the range of operations that can be undertaken by banks, firms and the public. Under one measure, which also meets the request made by the Forex Club, banks will no longer have to balance their exchange market positions by groups of currencies but only globally, while the holders of foreign currency accounts will be allowed to arbitrage.

As we advance in these directions, albeit well aware of the still precarious state of Italy's external accounts, we are encouraged by the conviction that progress towards freedom of capital movements can stimulate policy convergence and contribute to the construction of Europe.

Exchange rate policy and the structure of industry

The effects of the first oil shock, the drive to recover rapidly from the 1975 recession, the consequent wide gap between the domestic and international cycles, and the pressures that built up on the cost side underlay the foreign exchange crisis of 1976. Italy's net debt position, excluding gold, amounted to 10 billion dollars at the time. The room for manoeuvre provided by the official reserves was almost completely annulled, and Italy was rated a poor risk in the international capital markets.

The country's most urgent need was to earn surpluses on its external current account. In addition to a series of major restrictive policy measures, the exchange rate had to be allowed to fall further than actually necessary to close the gap between domestic and competitor countries' costs and prices.

Cyclical developments relative to other countries and improvements in the terms of trade made it possible to achieve the current account objective, while the weakness of the dollar reduced the inflationary repercussions. The current account surpluses earned between 1977 and early 1979 more than offset the deficits accumulated previously.

The EMS was set up at a time when the external constraint was less binding and the real exchange rate and relative cyclical conditions especially favourable. The current account of the balance of payments recorded a surplus for the third year running. Italy's net external position returned to surplus with a credit balance of 11 billion dollars.

This external situation was nonetheless matched internally by an aging industrial fabric. The delay in undertaking the reorganization of production made necessary to cope with international competition and the rigidities of the labour market was compounded by the unhealthy state of company finances.

While the depreciation of the lira against the other European currencies had helped to produce a temporary improvement in operating margins, it had also allowed firms to postpone technological innovation. The new exchange rate policy introduced in conjunction with the EMS incorporated the criterion of partial and lagged accommodation that would help goad industry into undertaking the necessary reorganization.

The change in the approach to exchange rate management was clearly revealed to the market in June 1980. Conditions in Italy and abroad had given rise to expectations, based on the extrapolation of earlier episodes, that it was time for the lira to be realigned in the EMS in order to give firms some relief. There was heavy selling of the lira in foreign exchange markets; but with plant capacity utilization at a high level, the downward pressure on the lira was resisted firmly and the exchange rate held stable. Firms realized that the way to reconcile profits and competitiveness was by curbing costs and improving productivity, and not by running down the lira — their return to a healthy condition became urgent.

The lira was realigned some time later, in March 1981. There have been other realignments since then, but exchange rate management has remained based on the criteria described above.

In the period since the inception of the EMS, marked by the non-accommodating stance of exchange rate policy and the latter's closer integration with monetary policy, the restructuring of industry has accelerated and been extended. Previously, industrial firms, and especially the large and medium-sized ones, had only sought more flexible production organizations, primarily by decentralizing. In the eighties, with a more stable exchange rate and a restrictive monetary stance, industry has been forced, in order to protect its future, to introduce far-reaching innovations in production methods, develop new markets, increase the flexibility of plant and expand the range of products.

Modernization has been rapid and extensive. The share of industrial investment serving to renew existing plant has been increasing. For the economy as a whole the proportion of investment expenditure consisting of purchases of machinery and equipment has risen.

Sample surveys of large manufacturing companies show that the renewal of capital speeded up after 1979, with consequent savings of labour and energy. The considerable increase in productivity, in part due to the introduction of electronics on a massive scale, has reduced the amount of capital required for the same production capacity. It has also reduced the availability of jobs, thereby imposing a heavy social cost. This, however, would have been even heavier had industry failed to restructure.

The above developments have enabled firms to face international competition and return to a structurally satisfactory level of profitability. Private companies and some state-controlled enterprises are once more able to finance a large proportion of their investment with internal funds, make substantial provisions for depreciation and pay an adequate return on equity capital. Both Italian and foreign investors have recognized the improvement in firms' situations, as evidenced by the performance of the stock exchange over the last year, and have contributed to the further strengthening of firms' finances by injecting fresh capital.

The recent realignment of the EMS currencies and the outlook for the economy

A non-accommodating exchange rate policy encourages firms to improve their internal efficiency, but it cannot overstep the limit beyond which the loss of price competitiveness risks being so great that firms and the whole economy will be weakened.

The realignment of last July was made in the context of shortfalls on trade in goods and services that could not be eliminated in any other way.

The recovery that got under way in the second half of 1983, primarily under the stimulus of industrial investment, caused domestic demand to grow faster in Italy than in the other European countries, which continued to record little growth. Furthermore, even though the inflation rate fell to single figures, it failed to slow any further after last winter and remained well above the average of the industrial countries. This caused a gradual loss of competitiveness, which was only partly offset by a small depreciation of the exchange rate.

These demand and inflation differentials caused a steady worsening in Italy's balance of payments and foreign debt position. The small surplus recorded on the external current account in 1983 turned into a deficit of 5.2 trillion lire in 1984, which will be followed this year by a much larger one, currently forecast at around 12 trillion lire. Italy's net foreign debt has risen and by the end of the year will amount to around 30 billion dollars, or more than the value of the country's gold reserves, currently worth around 23 billion dollars. The growth in this debt over the last few years has weakened the invisible balance, which is structurally in surplus. The deficit on income from capital in 1985 will rise to 60 per cent of the surplus on tourism and 4 per cent of the total value of exports of goods and services.

External deficits, and even large ones, can be financed by a country, such as Italy, that has a good credit rating; but debts postpone adjustment, they cannot replace it; moreover, they undermine economic policy's freedom of choice.

Well aware of the situation that was developing in Italy's foreign trade and finances, throughout the long period of dollar appreciation in international markets the Bank of Italy made purchases to prevent the lira from appreciating against the Community currencies; as soon as the dollar started to weaken at the end of February, the Bank allowed the lira to lose ground in the EMS.

The further weakening of the dollar after the first week of July prompted an immediate request for a realignment in the EMS. The aim of the request was a general redetermination of the parity grid of the currencies participating in the European exchange rate agreement. This was justified by the changes in the relative importance of the various economies since March 1983, the date of the previous realignment. A general realignment would have created the conditions for longer lasting stability within the EMS. The different solution adopted by the Community reflects the priority some countries gave to extra-economic considerations.

As far as the lira is concerned, the moment chosen has proved to have been appropriate. An earlier start was made on achieving the conditions needed to improve the trend of Italy's trade; advantage was taken of an international situation that ruled out negative effects on prices; by forestalling the widespread expectations of an autumn realignment, it was possible to avoid capital outflows, which, even if only temporary, would have allowed individual economic agents to gain at the expense of the community; and the authorities responsible for the management of the official exchange rate in the EMS reconfirmed their independence in choosing the moment for such decisions.

The events connected with the anomalous quotation of the dollar at the fixing on 19 July have been investigated and assessed by the highest and best qualified authorities. As far as the Bank of Italy is concerned, I should like to recall just two points: one factual and one regarding the criteria for decisions.

The anomalous quotation of the dollar on the 19th did not impair the realignment operation. This was already evident on Monday, 22 July, when dealing was perfectly orderly from the moment the market opened and the quotations of the lira stabilized at about 3 per cent below the level of 18 July — a depreciation comparable with those recorded after earlier realignments.

As for the criteria underlying the Bank's decisions, we are convinced that the day before a request for a realignment — when this has already been approved by the Government and there is no widespread market pressure — the central bank must not only pursue its normal objective of maintaining orderly market conditions but must also try to prevent speculative operations that have the country's official reserves as their counterpart. The latter objective acquires priority — and can only be achieved by allowing the price mechanism free play for the currencies demanded — when the course of events suggests that this demand stems from an intuition of the imminent official devaluation and portends even larger operations that could snowball in just a few hours.

On the other hand, especially in a floating rate regime such as that between the dollar and the other major currencies, the long-term stability of the exchange market itself depends on operators being constantly aware of the risks involved in trading.

The changes in the exchange rate constellation since February have resulted in the lira depreciating by 9 per cent against the EMS currencies and appreciating by 14 per cent against the dollar. Together with the weakness in the prices of raw materials (and especially oil), these changes have helped to correct the trend of Italy's trade deficit, without producing inflationary side effects. Some of the benefits can already be seen in the latest trade figures.

Other factors must now help bring the external current account back into balance: a curbing of domestic cost components; moderation in company pricing policies; and a narrowing of the demand differential that has existed to date between Italy and its leading competitors. Hence the need to curb the tendency for consumption expenditure to rise in Italy and to press for expansionary policies in the countries with large trade surpluses.

In general, the external conditions exist for the inflation rate to start coming down again towards the average of the other industrial countries. It is up to us to take advantage of this opportunity by rapidly formulating effective measures on the two fronts of domestic costs and the fiscal deficit.

To prevent inflationary pressures from being generated by labour costs, the agreements that will be reached in the current negotiations between employers and unions in the private and the public sector will have to respect the criteria of unchanged real wages and greater flexibility and efficiency in the utilization of labour by reducing automatic wage mechanisms and rewarding both ability and mobility. If necessary, fiscal or parafiscal interventions can be used to prevent the curbing of labour costs from being transformed into higher unit profits instead of lower inflation.

Everybody agrees that public finances are in a bad state and that the size and persistence of the borrowing requirement are the result of expenditure's explosive growth. This has to be checked upstream, in the institutional mechanisms generating the expansion. Until radical measures are taken at the source, efforts to curb the borrowing requirement will continue to have small and short-lived effects. The formulation of the Finance Law as approved by Parliament is the linchpin of the whole economic policy structure. Its efficacy will be assessed on the basis of a careful analysis conducted in the light of the aforementioned criteria.

The key problem is the fiscal deficit and not, though also undoubtedly serious, that of the public debt. The two are linked by a cause and effect relationship that must not be reversed in the search for solutions since doing so sidesteps the very essence of the problem, though in this instance a deleterious interaction between cause and effect does develop as time goes by. To clarify matters, it is best to consider the borrowing requirement net of debt interest — the most suitable aggregate for a summary assessment of action to rehabilitate public finances. After a small reduction in 1984, this aggregate has started to rise again in 1985.

Today's public sector borrowing requirement is undoubtedly weighed down by the heavy burden of interest that has to be paid on the growing debt created by years of fiscal deficit. The need to reduce this financial burden, in part by reducing interest rates, is also undeniable. But the fact that interest rates are linked to both inflation and the supply of and demand for financial savings cannot be ignored.

I have no miraculous or painless cure. There is talk of consolidation, forgetting that public debt management has achieved a notable lengthening of maturities. At the end of 1982, 56 per cent of public debt securities were Treasury bills; by September 1985 this proportion had fallen to 36 per cent. Today, the bulk of the debt consists of multi-year securities, for the most part with maturities of 5 to 10 years.

There is talk of forcing banks to subscribe government securities, overlooking the fact that the government has to come to the market several times a month to demand savings on an enormous scale and that it is impossible in practice to divide the debt between a free and a captive market.

There is talk of taxing government securities, failing to consider that the taxation of corporate holders was introduced a year ago and that households' choices are made primarily in the light of after-tax yields. The present size of the borrowing requirement means that universal taxation of government securities — even though fair and acceptable in principle — would amount in practice to no more than an accounting operation, while the reaction of savers, even if only shortlived, might be dangerous.

There is talk of a stream of new fund-raising techniques and instruments, but the inventiveness of financial experts can do little to change the real aggregates, and experimentation in this delicate field is not without risk.

All these ideas have been carefully studied. Some can make a marginal contribution to reducing the financial cost of the debt. None of them can replace the much more arduous task of achieving budget savings, in which Parliament and the Government are currently engaged.

Though by no means an easy one, the path to be followed to restore public finances to health has been clearly marked out, and I have referred to it on several occasions.

Gradual reduction of the borrowing requirement net of interest is the foundation stone. Coupled with and accentuating a slowdown in inflation, it will first reduce the nominal interest rate and then the real one, until the latter is brought down below the real GDP growth rate. Over the next few years falling rates could offset the interest burden effect of increases in the public debt.

Bringing the borrowing requirement down to zero net of interest and curbing the latter will enable the ratio of the total borrowing requirement to GDP to return to more "normal" values. A larger share of saving will be available to finance investment serving not only to modernize but also to expand production capacity and improve public infrastructures.

Determination and tenacity are necessary in advancing along this path. Outbursts of impatience lead to harmful interruptions, as the past all too clearly shows.

A few weeks ago I made a statement before Parliament on the implications of public finances for monetary and credit policy, with particular reference to developments during this year and the first indications regarding 1986. The latest data confirm that lending to the private sector is expanding as forecast, while money supply growth is slowing after rising faster than desired in the early months of the year as a result of fluctuations in liquidity preference, the spurt in the public sector borrowing requirement and Treasury decisions on its financing.

As for 1986, not all the aggregates in the economic policy framework are available today so that the objectives for the money supply and credit cannot yet be quantified. Until economic policy and especially fiscal policy have been formulated in greater detail, it is only possible to provide indications.

Current trends suggest that the expansion of domestic credit to the non-state sector can be kept close to 9 per cent, the rate planned for nominal GDP. As for the money supply, the action taken to keep its growth within the same limit has encountered the obstacle of the public seeking to diversify its portfolio of financial assets; as each year goes by, it becomes more and more difficult to keep the growth in the money supply much below half the rate recorded by other financial assets.

Monetary policy, in close harmony with exchange rate and credit policy, will continue to pursue the aim of bringing down inflation and righting the external accounts — objectives that the Bank has always considered to be instrumental in achieving the goal of lasting growth in income and employment.

In the government of money and credit the Bank intends, notwithstanding the curbs and limits on the effectiveness of its action inherent in the present state of public finances, to continue to rely on indirect instruments. The difficulties encountered in their use may sometimes lead to the temptation to return to constraints and ceilings, but we must not forget that by stimulating competition the indirect control of credit has promoted greater efficiency in the banking system, with the important contribution to spontaneous reductions in interest rates that this entails.

It is this approach that provides the common element linking the aims pursued by monetary and exchange rate policy with those of rationalizing and gradually liberalizing Italy's exchange controls that I discussed in the first part of this speech.

---

(1) J.M. KEYNES. *A Treatise on Money. The Applied Theory of Money,* 1930: reprinted in *"The Collected Writings of J.M. Keynes,"* Vol. VI, London, Macmillan, 1971, p. 281.

(2) J. TOBIN. *A proposal for International Monetary Reform,* Cowles Foundation Paper No. 495, New Haven, 1980, p. 154.

Documents

Report to the President of the Council of Ministers by the Minister of the Treasury on the purchase of 125 million dollars by the Ente Nazionale Idrocarburi on Friday, 19 July 1985

For a better understanding of the report that follows, the account of events and the analysis of the actions of those involved are introduced by several premises and a few technical notes.

Premises

1. The Government decision to begin the round of consultations within the EEC required to proceed with a realignment of the central parities of the EMS currencies was made in the late afternoon of Thursday 18 July. That evening the Governor of the Bank of Italy was informed, so that on the basis of that decision he could best plan the Bank of Italy's actions in the foreign exchange markets on the following day.

2. In such circumstances it is the Central Bank's duty to combine the standing objective of ensuring orderly market conditions with special attention to preventing currency speculation to the detriment of the nation's foreign exchange reserves.

3. When a realignment is imminent, "speculation" by foreign-exchange operators means acting on knowledge or intuitions not supplied by other parties to purchase at a given price foreign exchange that in a few days could only be had at a significantly higher price. If the expectation of a realignment is widespread, essentially the only potential sellers are central banks; hence the risk of an enormous outflow of foreign exchange that can be expected to flow back in the days to follow, with losses for the central banks that can be quite substantial indeed.

4. The following account of the events of Friday 19 July will be accompanied, where necessary, by "notes" to aid in their understanding.

5. The actual course of events and the accounts furnished by the participants, including documents and writings, are almost completely consistent. Discrepancies, where they occur, are marginal, except in one case, which will be particularly highlighted.

Technical notes

a) Realignment (in our case, devaluation) affects the theoretical parities fixed within the EMS; there is thus no direct relation between the extent of the realignment and the market exchange rate that will emerge the following Monday, which depends on market participants' assessment of a wide variety of political and economic factors. In other words, it is impossible to know in advance how large a variation will be recorded by the devalued (or revalued) currency the day after the realignment.

b) Italian residents can purchase foreign exchange for lire for the purposes contemplated by exchange regulations and deposit it in a foreign exchange account opened for the occasion with an agent bank. The length of time foreign exchange accounts can last is set by a decree issued by the Ministry of Foreign Trade in concert with the Treasury. At present the limit is fifteen days, after which the account holder must either carry out the transaction specified or sell the foreign exchange to the Italian Exchange Office for lire. Persons that must make payments in foreign exchange on a fixed date can therefore begin to acquire the necessary currency fifteen days in advance of that date.

c) In Italy, the foreign exchange market is restricted to agent banks, which buy and sell foreign exchange on behalf of their customers. The banks can also act for their own account in connection with fundraising or lending in foreign currency. Further, the banks authorized to deal in foreign exchange are required to balance their foreign exchange positions daily; in other words, the agent banks may not maintain an open speculative position against the lira from one day to the next. They can, however, hold open foreign exchange positions in the course of the business day. The banks are permitted to balance their spot positions against offsetting forward transactions (within the limits set by the ceiling on swaps), but this cannot give rise to a speculative position, though it can exert some pressure on the exchange rate (pressure, however, whose intensity is limited by the swap ceiling).

Customers who need to buy or sell foreign exchange must apply to a bank authorized to deal in foreign exchange (an agent bank). The bank may carry out the transaction any time in the course of the day (the foreign exchange market being open during the same hours as the banks). However, the customer may choose to have his bank carry out the transaction during trading or at the fixing. For transactions during trading the customers may specify that they be at the best price , in which case the bank must subsequently be able to demonstrate that the order was filled at the best terms of the day. For transactions at the fixing, the customer can set a top price; if the fixing exceeds that level, the bank must withdraw the order.

For transactions during trading, the agent bank does the operation with another agent bank as counterpart at the going price at that moment. Transactions during trading are not uncommon; as a rule, though, they are performed on behalf of those customers best able to follow the course of the market independently.

Transactions at the fixing, by contrast, are to be settled at the official price set at the fixing. In practice, in the course of the morning each bank collects its customers' orders and determines whether sales and purchases are balanced or whether there is a net imbalance. This net imbalance can be negative (a net demand for foreign exchange) or positive (a net offer of foreign exchange).

It is superfluous to recall that the net amount reported to the fixing by a bank is in no way indicative of the volume of orders that will be settled at the fixing price. If, for example, a bank brings a net demand for 5 million dollars to the fixing, this imbalance could be the net result of customer purchase orders of 10 million or 100 million dollars and sales orders of 5 million or 95 million dollars respectively. Similarly, if a bank comes to the fixing in balance, this does not mean that it is not trading in foreign exchange that day; it means only that purchase and sales orders exactly offset each other. In any case, all these orders are settled at the fixing price even if the bank has not actually taken part in the fixing.

d) The fixing is carried out simultaneously on the Rome and Milan foreign exchange markets. The foreign exchange dealers representing the agent banks take part. The Bank of Italy has its own dealers in both markets, acting on the instructions of Bank representatives in telephone contact with the Bank of Italy's foreign exchange operations centre located at the Bank's central headquarters in Rome.

Obviously, the official quotation of currencies at the fixing does not have the same significance in a floating rates system as in a system of fixed parities. In Italy the fixing performs two functions. First, it offers customers an objective measure of the price paid or received in his foreign exchange transactions. Note that this function protects customers from potential malpractice by the banks (which in the absence of the fixing price could theoretically charge their clients whatever price they wished). But not from fluctuations in the exchange rate; in fact, Italy is under no obligation to maintain any particular parity of the lira with the dollar, while its commitments under the EMS allow the exchange rate of the lira to range as much as 6 per cent above or below its central parity. (In theory, therefore, the lira could vary by up to 12 per cent with respect to the Deutschemark overnight, if it suddenly went from the top to the bottom of its fluctuation band).

The second function of the fixing is to give the banks a counterpart (i.e. the Bank of Italy) with which to balance their foreign exchange positions. However, the Bank of Italy also performs this function independently of the fixing, with interventions related to market trends.

e) Ordinarily, the fixing begins at 1.15 p.m. in both the Rome and Milan foreign exchange markets with the quotation of the dollar followed by the EEC currencies, led by the DM. Next comes the ECU and then the other non-EEC currencies. The exchange speaker announces the price, starting with the previous day's fixing price, and the dealers announce their net purchase or sale positions and the price at which they are prepared to carry out the transaction. The price is noted by the speaker, and if there is a net demand in the market, the price rises; if there is an excess supply, the price falls. Transactions may occur at any of the prices called, but the process continues, with the price changing, if at the called price supply and demand do not tally. If a dealer deems the new price to be disadvantageous, he can withdraw, cancelling the transaction. When at a certain price there are no more unbalanced positions, the market in that currency is closed and that price becomes the fixing price for all transactions that are not cancelled. The Bank of Italy may intervene at any moment in the course of the fixing procedure through its representative dealer.

f) The Bank of Italy is under no obligation to intervene with purchases or sales of dollars. For the currencies participating in the EMS exchange arrangements, such an obligation becomes effective when their quotations reach the agreed-upon intervention rates.

What happened

I. Early in the trading day of Friday 19 July the foreign exchange markets felt some downward pressure on the lira within the EMS. Between 11.00 and 12.00 o'clock the DM rose from 646.75-647.25 to 650.50 lire. Dealers attributed this to the impending application, scheduled for 22 July, of a new, more restrictive interpretation by the Italian Exchange Office of the regulations governing short-term foreign exchange transactions by the banks. Another potentially negative factor for the lira was the figure on Italy's trade deficit in May, just released. The Bank of Italy was monitoring the market very closely, because it could not be ruled out that the pressure stemmed at least in part from specific expectations of an imminent depreciation of the lira. Adhering to its pre-established guidelines, the Bank did not intervene.

II. The pressure eased at about 12.00 o'clock, the lira stabilizing at a rate of 650 per DM and 1,868-69 per dollar.

III. Meanwhile, according to subsequent statements by ENI, at about 11.30 the firm's Finance Manager, Dr. Mario Gabbrielli (in Lombardy on business), ordered the Treasury Office Manager, Dr. Vittorio Plaja (in Montecarlo for the meeting of the Board of Directors of ENI International Bank) to purchase in the course of that day 125 million dollars, needed together with another 25 million acquired in days past to repay on 24 July a loan ENI had obtained from one of its subsidiaries (now ENI International Bank) with the intermediation of the Frankfurt branch of Istituto Bancario San Paolo di Torino. Dr. Plaja ordered an ENI officer, Dr. Petracca, to execute the purchase order. (All of this required numerous telephone calls among the men named and between them and their colleagues.)

Following ENI's standard procedures, the Finance Office did not inform other executive organs or levels of management. In particular, the entire body of information gathered makes it clear that the Chairman of ENI had no knowledge of the transaction or of the course of events until after the market had closed.

Notes

ENI's action, as recounted by Dr. Gabbrielli, calls for several points of information both to clarify certain matters that have arisen in more recent discussion and also to better understand what happened next.

— Actually, the intent of the purchase order was to move up a purchase that could have been made as late as Monday 22 July (two business days before the 24 July repayment deadline). The completion of the purchase of foreign exchange in advance of the loan deadline is of course perfectly legitimate — see Technical Note (b) — but this does not explain the urgency invoked at certain stages of the operation.

— According to Dr. Gabbrielli, the reason for the decision was his forecast of an appreciation of the value of the dollar. This forecast was substantially confirmed by the trend of the market as it appeared at the time the order was given. In fact, the DM was subsequently quoted at 2.8703 per dollar on 19 July and 2.8856 on 22 July. In other words, ENI's Finance Manager believed he could buy dollars at a lower exchange rate on Friday 19 July than would be available on the following Monday.

— The preceding note makes both the identity of ENI's creditor and any other dollar holdings by ENI irrelevant.

The identity of the creditor, invoked in the course of the subsequent debate, might in the abstract suggest that the repayment deadline could have been renegotiated. And the possession of dollar holdings by ENI could give rise to doubt over the urgency of the need to purchase dollars on the exchange market. Neither of these, however, is a valid objection to the fundamental reason for the operation, namely the hopes of buying today, at x, what would cost x + y two days later.

— On the basis of the information acquired, it is not possible to ascertain, or even to infer, whether Dr. Gabbrielli had some information concerning the Government decision to begin the realignment procedures. Nor are the references to Italy's problems of competitiveness by a technical paper issued by the Prime Minister's Office grounds for arousing suspicion. The paper was released several days before 19 July. And the terms used — especially if viewed before the fact — were so generic that no other foreign exchange operator seems to have drawn any specific indications from them. Moreover, if Dr. Gabbrielli had been quicker than others to sense the import of the paper, he would presumably not have waited until Friday 19 July to buy dollars but would have done so, and in quantity, in earlier days as well.

— What is worth noting, because we shall come back to this point, is that according to ENI, as we have seen, Dr. Gabbrielli acted on the assumption of a general strengthening of the dollar in all exchange markets, not a specific depreciation of the lira.

IV. At about 12.30 p.m. Dr. Petracca informed the Bank of Italy of ENI's intentions.

A few minutes later Dr. Fabrizio Saccomanni, Head of the Bank's Foreign Relations Department, got in touch with Dr. Petracca — who was himself in contact with Dr. Plaja — informing him that he had consulted with the Directorate of the Bank and that the Bank was not prepared to execute the order "out of market" and expressly urging ENI to postpone the transaction until Monday 22 July.

Note

It may well be implicit in what has been said so far, but it is still worth underscoring that had 19 July been the last possible day for ENI to acquire the needed foreign exchange, the Bank of Italy could not have failed to fill the order, in that the possibility of speculative behaviour would have been ruled out by the deadline for fulfilling ENI's obligation.

V. "Dr. Plaja, after trying to contact Dr. Gabbrielli, after the latter had indicated that the foreign exchange was to be purchased within the day, felt that judgemental elements available to him warranted his confirming the purchase order to Dr. Petracca, perhaps because it was his belief that in any case the fixing would not set a rate exceeding ... 1,908 lire to the dollar". (Minutes of the ENI Council meeting of 26 July 1985)

Notes

In the view of the author of this report, and regardless of any subsequent reflections, the decision to confirm the purchase order following the Bank of Italy's urging that it be withdrawn was the key event in the entire affair. And this not only because it was a somewhat unusual occurrence per se (and the fact that the Bank of Italy's suggestion, as it was quite out of the ordinary should logically have been all the more impelling). It was also because the reasons adduced for the decision quite clearly imply the emerging connection between the operation and the impending realignment of the lira.

Dr. Plaja confirmed the order in part on the basis of his judgment that — owing to ENI's own order, no longer to the international trend of the dollar — the dollar's exchange rate might rise, and substantially, on the Italian market. In other words, the element deemed indispensable to the success of the operation was no longer a strengthening of the dollar but the weakening of the lira.

It has been repeatedly declared in formal company statements that in their planning of the purchase ENI's finance managers had assumed that in any case the Bank of Italy would intervene when the dollar reached about 1,908 lire, in that the mark-dollar rate that day being about 2.87, the 1,908 figure was equivalent to more than 664 lire per DM, the rate at which by its EMS commitments the Bank of Italy was obliged to intervene selling Deutschemarks to all buyers.

Another line of reasoning further strengthens the convictions expressed so far. If the lira had reached its intervention rate against the DM owing solely to some anomalous circumstance which for some reason was not piloted by the Bank of Italy, the rational expectation would be that the following Monday the Bank would have acted to bring the DM (and the other EMS currencies) back away from the margin. But this would have brought the exchange rate of the dollar down as well, so that anyone buying dollars at 1,908 lire would have made a bad bargain.

In other words: Dr. Plaja knew that the Bank of Italy was unwilling to intervene with sales of dollars at 1,870 lire, the exchange rate of the American currency towards the end of the morning; he knew that the rate might rise as a result of ENI's own purchase order; and he was willing to take the risk, assuming that in any case ENI would pay no more than 1,908 lire per dollar.

At this point, the operation could prove successful only in the event of a substantial revaluation of the dollar against the DM the following Monday, or else the devaluation of the lira's central parity. And regardless of whether or not the possibility of a devaluation weighed in Dr. Gabbrielli's original decision, Dr. Plaja could not possibly have failed to take it into account when he confirmed the order following the Bank of Italy's advice.

In partial subsequent corroboration of this argument, let us recall that had there been no realignment, the U.S. dollar would presumably have been quoted at less than 1,875 lire on Monday 22 July if the lira's exchange with the DM had held stable, thus provoking a substantial loss for the buyer in the case of a purchase at 1,908 lire.

These are the conclusions that can be reasonably drawn in light of the official account of events furnished by ENI's Finance Office.

The evidence supplied by Istituto Bancario San Paolo di Torino offers the following account:

9.50 a.m.

Dr. Petracca telephones Dr. Olivieri informing him that he will give us purchase instructions for 125,000,000 U.S. dollars at the UIC average for the day. Olivieri asks whether he has notified the Bank of Italy of the operation. Dr. Petracca specifies that he will contact the Bank and furthermore that this had already been urged by Dr. Plaja, who had called him from Montecarlo. They conclude that after consulting with the Bank of Italy, ENI will confirm or withdraw the order. Olivieri tells Dr. Petracca that he must be away from the office temporarily and that the transaction can be concerted directly with Dr. Borreale.

11.15 a.m.

Dr. Petracca of ENI calls Dr. Borreale to inform him that he is waiting for an answer from the

Bank of Italy and will communicate it to us as soon as possible.

12.40 p.m. to 1.10 p.m.

Dr. Petracca informs Dr. Olivieri, who has meanwhile returned, that the Bank of Italy has told him that the transaction can be carried out that day at the market exchange rates. For our part, we advise executing the order on 22 July, since there is a sell order for 150,000,000 dollars from another customer and the two offsetting transactions would not affect the market one way or the other. Dr. Petracca later confirms the purchase order at the UIC average after getting authorization by telephone from Dr. Plaja in Montecarlo. At this point we again remind him that it would be better to make the purchase on 22 July for the reasons given above. Dr. Petracca nevertheless confirms the order, and at about 1.10 p.m. we confirm the purchase to our (San Paolo's) exchange office in Turin.

about 1.15 p.m.

The Turin exchange office calls to notify us that the price at which the transaction could be closed might even exceed 2,000 lire. At this point we call Dr. Petracca to inform him of the situation and try to get the purchase order withdrawn, since the Bank of Italy is waiting for an answer from us. From this moment on Dr. Petracca tries to locate someone in ENI who can make such withdrawal decisions and stays on the line with us.

1.28 p.m.

From Turin, through Demi and Ruffinato, we are advised that an immediate answer as to whether to execute the order in the market is urgent, since the Bank of Italy has made it clear that it does not intend to intervene in the market and that the dollar will certainly rise; we immediately relay this information to Dr. Petracca, who is still on the line, asking him urgently for a reply. At about 1.35 p.m. Dr. Petracca announces that he has been unable to find anyone at ENI with the authority to cancel the purchase order, and that it therefore stands confirmed. We immediately communicate the confirmation of the order to Turin.

Clearly the hour of the first two telephone calls suggests that the decision was made by ENI's Finance Office at a different time and thus probably for different reasons, than officially stated.

With respect to these two telephone calls, I confronted the Chairman of ENI with the discrepancy between this information and the previous statement by Dr. Petracca. The Chairman's reply consisted of the reconfirmation by Dr. Gabbrielli, Dr. Plaja, and Dr. Petracca of their respective positions.

The following is the text of Dr. Petracca's statement:

I confirm what I stated on 22 July, namely that:

a) the episode of the dollar purchase began at 11.30 a.m. with the telephone call whereby Dr. Plaja requested me to transmit to Istituto Bancario San Paolo a purchase order for 125 million dollars to be used in the repayment to San Paolo of Frankfurt and to notify the Bank of Italy of the operation;

b) Only after this did I telephone Dr. Olivieri and Dr. Borreale of the San Paolo;

c) Later, at about 1.30 p.m. Dr. Borreale informed me that the Bank of Italy would not cover the operation outside the market and that the price set at the fixing might be substantially higher, even 1,950 or 2,000 lire. "I interpreted the indication of this possible rise as a remote possibility and the information as to the attitude of the Bank of Italy as confirmation of what Dr. Saccomanni had already told me".

I recounted this position to the Istituto Bancario San Paolo, and specifically to Dr. Olivieri, who in turn confirmed his own statement, adding details in corroboration of his version and emphasizing the embarrassing position he found himself in, for having failed to inform his bank's foreign exchange operations center immediately.

At this point in the ascertainment of the facts, we had to proceed in the strictest observance of the limits to the present investigation. Obviously, the use of the type of investigative powers available to other organs was out of the question. For this reason I elected not to convoke the persons who had given contradictory accounts of events for a direct confrontation.

VI. Meanwhile, at about 1.00 p.m., during the interchange of information preceding the fixing, Istituto San Paolo informed the Bank of Italy of its purchase order from ENI for 125 million dollars to be executed that day. The Bank of Italy reiterated that it would not supply the foreign exchange outside the market. It also asked Istituto San Paolo to get a confirmation of the order from ENI.

Seeing the potential consequences of the situation, Istituto San Paolo asked for time to get a confirmation or modification of the order from its customer. To this end the start of the fixing procedure, which the stock exchange regulations set at 1.15 p.m., was postponed. As we know, following urgent contacts between Istituto San Paolo and Dr. Petracca the order was confirmed, even though Istituto San Paolo, in addition to emphasizing the risk of a substantial rise in the quotation of the dollar (to around or over 2,000 lire, depending on whose version one accepts), also offered to supply ENI with the needed dollars from its own holdings the following Monday.

Note

— As we know, Dr. Petracca's efforts to contact Dr. Gabbrielli and Dr. Plaja failed because both simply could not be reached (one traveling, the other at lunch after the ENI International Bank Board meeting).

VII. At 1.35 p.m. the fixing procedure began.

As usual, it began with the dollar. ENI's purchase order for 125 million dollars, by far the largest in the market, found no sellers, and the dollar's quotation rose. The Bank of Italy elected not to intervene in the belief that at a higher rate sellers would materialize or, failing this, that the purchase order would be withdrawn, or perhaps deflected to other currencies. One factor in this belief was Istituto San Paolo's demonstrated willingness to accept, if not solicit, counterorders to a transaction that was potentially very costly indeed for its customer.

The rise of the dollar accelerated rapidly. Given the persistence of a rigid demand, at about 1.45 p.m. the Bank of Italy decided to close the fixing of the dollar in order to stop a soaring exchange rate that, as the minutes passed, proved to be self-propelled and limitless. The Bank intervened selling 116 million dollars at 2,200 lire to the dollar.

Thereupon the exchange rate for the Deutschemark was fixed, near the lower limit of the lira's EMS band (664.7 lire per DM).

The official exchange rates of the dollar and the DM so obtained were thus inconsistent with the current exchange rate of the two currencies in international markets.

VIII. Immediately upon conclusion of the fixing for the dollar, the Bank of Italy contacted the Minister of the Treasury suggesting a ministerial decree suspending the quotation of other foreign currencies against the lira. The Minister of the Treasury promptly decreed the suspension, for the day, of the official quotation of those foreign currencies whose fixings followed those of the dollar and the DM. The Bank of Italy communicated the suspension of the fixing procedure to the Rome and Milan stock exchanges.

IX. In the afternoon, the Italian foreign exchange market was effectively inactive. Internationally, the lira's exchange rate with the dollar did not go above 2,000, though with large spreads between bid and offer prices, reflecting the uncertainty engendered by the events of the morning.

Notes

At this point, an examination of the actions of Istituto Bancario San Paolo, as agent bank, and of the Bank of Italy, as monetary authority, is required.

Apart from the course of action it actually pursued, Istituto San Paolo had two alternatives:

First:

When the dollar began to register increasingly aberrant exchange rates, it could have decided on its own responsibility to alter the purchase order, in conformity with the possibility offered by the Civil Code, Article 1711 (2), which reads as follows: "The agent may deviate from the instructions received when circumstances unknown to the commissioner, and which cannot be communicated to the latter in time, make it reasonable to presume that the commissioner himself would approve such action". On this basis ENI has expressed reservations as concerns the definitive settlement of the transaction. It is not the task of the Minister of the Treasury to settle the potential, quintessentially private dispute between ENI and Istituto San Paolo; nor would it be proper for the Minister to express any judgment as to the conformity to the law or the contract of the actions of the two parties involved.

Second:

Working from the dollar's exchange rate with the other currencies, Istituto San Paolo, according to some views, could have proposed or initiated an arbitrage, i.e. a cross transaction involving several currencies.

In this regard, however, certain observations are in order. Foreign exchange dealings by Italian businesses — both banks and non-financial companies — are subject to numerous regulations that decisively constrict their freedom of action. With specific reference to ENI's order for 125 million dollars against a deposit in lire, it must be emphasized first of all that it was not possible for the company to purchase any currency but dollars. Exchange regulations, in fact, provide that in the case of repayment of a loan, the foreign exchange acquired must be in the currency in which the loan is denominated, since the sum must be credited to an open account in the name of the purchaser, known technically as a foreign exchange giro account. The agent bank could not, therefore, suggest that the potential counterparties carry out a transaction prohibited by the exchange regulations.

It could be argued that following the customer's reiteration (at 1.30 p.m.) of the decision to carry out the operation that day, despite the advice that in view of the strains developing in the market it would be wiser to postpone it until Monday, the agent bank could have opted, at its own risk, for arbitrage, withdrawing the dollar order and presenting instead an order for Deutschemarks or another European currency and — in the brief interval between the two fixings — trying to find a vendor willing to convert the marks (bought at the market price) into dollars.

Theoretically possible though this dollar-Deutschemark operation was, albeit difficult to execute for the full amount of the order, in practice the purchase of 350 million DM for lire simply could not have been made in the market that day, in view of the virtually total lack of any demand for lire abroad, meaning that the order would have had to be reintroduced in Italy to be executed at the fixing.

It may be objected at this point that under the EMS exchange arrangements the Bank of Italy was obliged to sell marks at the lira's upper intervention rate against it, so that the order could have been filled at market prices. In this case, however, the agent bank would have been taking a risk in acquiring dollars in this fashion at a higher price than the quotation of the dollar itself — the rate which ENI would then rightly have insisted on.

Clearly, then, in the time available, such an operation was in fact impossible; and had it been realizable, it still would have entailed exchange risks for the agent bank that would have been difficult to charge to the customer.

The action of the Bank of Italy can only be judged if we weigh the possible alternatives, for there is no doubt that the Bank was acting in response to initiatives taken by others.

We know what actually happened. What might have happened can be essentially outlined in four possibilities:

1) — The Bank could have filled ENI's order, outside the market or at the fixing, at an exchange rate of about 1,870 lire per dollar.

2) — The Bank could have moved, directly or indirectly, to see to it that its request to ENI to postpone the order was brought to the attention of higher ENI officials and in more explicit fashion.

3) — It could have suggested that the Treasury close the exchange markets prior to the start of the fixing.

4) — It could have intervened during the fixing when the rate on the dollar produced a cross-rate between the lira and other EMS currencies equivalent to the lira's intervention rate.

It is worth examining the Bank of Italy's own assessment of these possibilities, to which we shall add some considerations of our own.

1) — Why the Bank of Italy did not fill ENI's order outside the market.

The central bank's decision not to fill the order outside the market must be placed in the particular context of that day. The Government had decided that on 19 July it would request a realignment of the lira within the EMS. It was therefore utterly necessary to make sure that there were no foreign exchange profits on large single trades involving the sale of foreign exchange by the central bank outside the market or before the fixing. The Bank of Italy had to follow this line of conduct even with respect to a leading state-controlled company.

It should be recalled that the realignment decision, motivated by fundamental balance-of-payments disequilibria, had been the product of a deliberate calculation, i.e. with no speculative pressures on the lira during the previous few days.

Moreover, two other facts confirmed the wisdom of the decision:

a) ENI's order — for a substantial sum — came to the Bank late in the morning, near the time of the fixing;

b) ENI had no absolute deadline requiring that the transaction be completed Friday 19 July, since the purchase of dollars was connected with the repayment of a loan to be value-dated 24 July, hence with settlement on 22 July.

2) Why the level of the Bank's signals to ENI was not raised.

The Bank of Italy's signal to ENI came from the highest operational level normally involved in such transactions, namely the Head of the Foreign Relations Department. The signal, moreover, comprised the following components:

a) ENI was informed that the Bank of Italy's decision had been made after the Head of the Foreign Relations Department had had consultations at the level of the Directorate of the Bank;

b) ENI was urged to execute its order on Monday, in view of point 1(b) above;

c) ENI was informed that if it wished to carry out the transaction on Friday, as it had a right to do, it could not obtain the foreign exchange from the Bank of Italy outside the market; presenting the order in the market entailed the risk of a higher price.

Further contacts, at the top level, between the Bank of Italy and ENI over a question of this sort would have been utterly out of the ordinary and highly undesirable. On this particular day, they would have caused embarrassment to both institutions and entailed the risk of disclosing the imminence of a realignment.

Finally, let us recall that ENI had also been sent indirect signals, via Istituto San Paolo, including the delay in starting the fixing procedure.

3) — Why the Bank did not call the attention of the Minister of the Treasury to the market situation prior to the fixing.

The Bank of Italy informed the Minister of the Treasury as to the market situation with the utmost promptness, as soon as it was clear that the market was becoming one-sided and disorderly. It was not possible to be sure of the presence of such conditions before the start of the fixing. Nor was it reasonable to predict that such conditions would arise, since on the contrary the legitimate expectation was that ENI's order would be withdrawn or modified, possibly to be presented in other markets; or else, failing this, that as the dollar rose supply would materialize within the market.

4) — Why the Bank of Italy did not intervene at the cross-rates consistent with the lira's intervention rate within the EMS.

Italy's membership in the EMS entails explicit intervention obligations only with respect to the other currencies participating in the EMS exchange arrangements. Intervention by the Bank to stabilize the dollar at a level consistent with the maximum permissible cross-rates with EMS currencies is thus not compulsory. Under the circumstances, moreover, it would also have been inappropriate.

Cross-rates of the dollar consistent with the intervention rates of the lira were at under 1,900 lire for the Irish pound, the Danish krone and the French franc, and 1,907 lire for the Deutschemark. Intervention at the fixing at these levels would have generated the belief that a devaluation of the lira was imminent. Given the small difference between the rates at which such intervention would have taken place and the prevailing market rates, dealers would have discounted a depreciation of the lira, especially against the dollar, as of the following Monday. In other words, widespread speculative profits would have been made possible and an appreciable amount of foreign exchange reserves expended.

The concern to prevent speculative dealing, which could have taken place after the fixing at the expense of both the Bank of Italy and other central banks, was the top priority in the decisions made on this highly particular day.

At issue was not only safeguarding Italy's foreign exchange reserves but also preventing speculation (foreign exchange purchases from the Bank of Italy on Friday 19th and resale at a profit on Monday 22nd), which would at one and the same time have brought immediate economic damage and laid the foundations for future speculation. Once the dollar had gone above the values consistent with the maximum EMS cross-rates, the absolutely rigid demand coming from ENI encountered no direct or indirect supply of dollars in the market. At this point the Bank decided to intervene when the quotation of the dollar was manifestly far from any kind of market price. For one thing, such rates justified the closure of the market, which was promptly requested of the Minister of the Treasury, and for another they obviously eliminated the causes for any potential added demand for dollars.

The time required to issue the closure decree, limited though it was to just a few minutes, meant that the fixing proceeded through the setting of the official rate for the Deutschemark. Intervention by the Bank of Italy being compulsory, the exchange rate of the DM remained within the fluctuation band. The closure of the market immediately thereafter made all speculation impossible.

The consequence of the market's having produced an absurd exchange rate for the dollar on Friday was that there was no permanent effect on the market's expectations. By contrast, the apparently more "realistic" rates that would have resulted from dollar sales by the Bank of Italy at the fixing would have been reasonably interpreted by the market as rates deemed appropriate by the monetary authorities. That events could not be so read certainly contributed to the successful stabilization of the lira's market quotation following the realignment within the EMS, as witnessed by the behaviour of exchange rates in the days that followed.

The foregoing notes furnished, as specified above, by the Bank of Italy, suggest the following remarks:

a) As regards a closing of the market prior to the fixing — hence unjustified by events, much less attributable to fears — we cannot ignore the concern such a measure would have engendered domestically and internationally (Italy's last unilateral market closure came in 1976 in conjunction with the onset of a grave economic crisis).

b) One further point for reflection is why the rate of 2,200 lire was selected as the intervention point, rather than 2,100 or 2,300 lire; any explanation here must take account of the particular fixing procedure combined with the expectation that ENI's order would be withdrawn. The reasonable presumption is that at rates above 2,000 lire to the dollar, the choice of the closing rate depended solely on the judgment of the Bank of Italy, since no precedents of guidelines were available on which to base a convincing decision.

Conclusions

As noted in the premise, the course of events is well known and, except for the one aspect singled out in Point V, not disputed by the participants.

The purpose of this report is to better understand the causes, inferring them both from the testimony of the participants and from the logical relationship between events and actions.

In extremely condensed form, the affair as a whole would seem to indicate the following general conclusions as the most reasonable:

— At least at some point in the course of the transaction, the Finance Office of ENI appears to have acted on the assumption of an imminent devaluation of the lira. This behaviour made it impossible for the Bank of Italy to reconcile its two principal objectives, namely preventing speculation and maintaining orderly market conditions.

  The Bank of Italy elected to make the former objective the top priority.

— The international image of our currency was undoubtedly tarnished, if only temporarily. On the positive side, however, it must be underscored that:

1) The events of Friday 19 July had not the slightest effect on the realignment procedure, which was concluded swiftly and most successfully.

2) The force of this observation is enhanced by the attitude taken by Italy's European partners at the 20 July meeting of the Monetary Committee.

3) There was no lasting effect on the exchange rate of the lira, the markets settling at broadly satisfactory levels right from the following Monday.

4) There was no speculation; the profits made by persons who sold dollars, taking advantage of an utterly unforeseeable situation arising at the initiative of others, can in no way be regarded as speculative.

When a currency is devalued, let us note, speculative intent is to be found solely in those who purchase other currencies, never in those who sell them.

Obviously, the loss suffered in an unsuccessful speculation is translated into a gain for its intended victims. Thus it is improper to speak of speculation in connection with those who sold dollars at 2,200 lire on Friday 19 July; for one thing, they would probably have been willing to sell at 1,870 lire, thus ruling out ill intent on their part. Nor is it conceivable that they could have foreseen the course of action eventually pursued by the Bank of Italy in what was unquestionably an exceptional decision so exceptional, in fact, that at the explicit order of the Governor the operation was directed personally by Director General Dini.

In conclusion, on the basis of the investigations made and the information gathered, the Minister of the Treasury is satisfied that the affair has been adequately explained.

Statement by Carlo A. Ciampi, Governor of the Bank of Italy, before the Committees of the Italian Senate and Chamber of Deputies, in joint session on 2 October 1985

On the Analysis of the Monetary and Credit Aspects of the Present Economic Situation and the Forecasts of the Main Monetary and Public Finance Aggregates for 1986

1. The Italian economy has made notable progress in the last few years. Inflation has come down from an annual rate of 21.7 per cent in 1980 to 8.3 per cent today; in the industrial sector there has been a far-reaching restructuring and strengthening of companies compared with the seventies; and the climate of industrial relations has improved. The financial markets, both here and abroad, have recognized this progress.

In 1985, however, the rehabilitation of the economy has been uphill and the results at the end of the year will fall short of the objectives set for economic policy in September 1984. In real terms GDP growth will be almost as forecast, but inflation will be more than one point above target. The rate of increase in investment will be higher than that in consumption, but the differential between the growth rates of the two components of domestic demand will be smaller than had been hoped. Furthermore, the current account of the balance of payments will record a deficit of 12 trillion lire, as against a forecast of 3 trillion.

2. What are the causes of these shortfalls? The strong dollar has hindered the drop in inflation. The slow growth of the major European economies, coupled with the effect within the EMS of the dollar's strength, has contributed to the deterioration in the balance of payments. These external factors are beyond the control of Italian economic policy, but they are also less important than the domestic factors at play.

On the domestic side, the public finances exerted the strongest negative influence. The imbalance between government receipts and outlays has: expanded demand beyond the limit compatible with balance-of-payments equilibrium; shifted demand towards consumption, where it makes the smallest contribution to the creation of jobs; made demands on the financial markets that have kept both real and nominal interest rates at a high level; caused loans for production and investment to be more expensive; swollen the stock of financial assets and increased the private sector's liquidity; and, by enlarging the public debt, put a heavier financial burden on future years.

3. The Finance Bill submitted in 1984 established that this year's state sector borrowing requirement would exceed last year's by only 1 trillion lire. In the first eight months of 1985 the overshoot has amounted to 16 trillion lire. The new Finance Bill foresees some reduction in the overshoot by the end of the year, but it will still be of the order of 11 trillion lire. To the 106.7 trillion lira deficit now forecast another 13 trillion lire have to be added for the settlement of past debts. This amount, in turn, involves more financial securities pressing on the market. The ratio of the borrowing requirement to GDP will be 15.7 per cent, compared with an average value of just over 5 per cent for the seven major industrial countries and for the EEC as a whole.

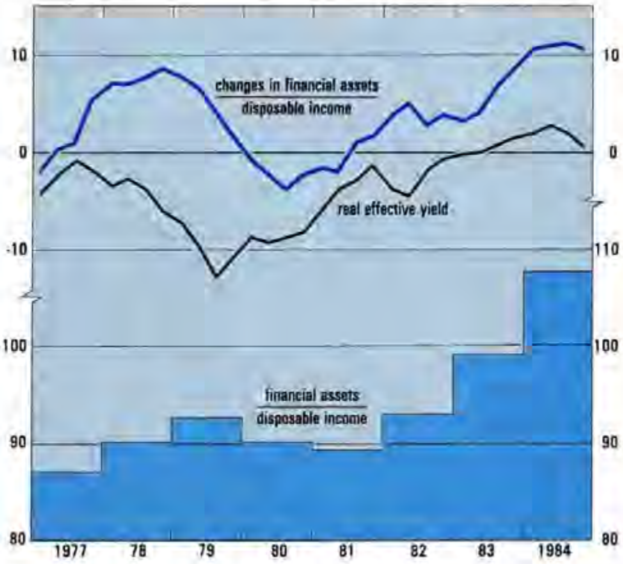
The public debt has continued to expand at a rate of 21 per cent and by the end of the year will be equivalent to the value of Italy's national product. The interest burden will increase by about 6 trillion lire compared with 1984, remaining unchanged as a ratio to GDP. The increase is attributable to that in the debt itself. The Finance Bill also forecasts that the 1985 state sector borrowing requirement net of interest will amount to 44.4 trillion lire, as against 37.8 trillion in 1984 — a revival of the growth that had been interrupted last year.

4. Total domestic credit is the sum of the state sector borrowing requirement and the credit granted to the non-state sector. The first of these two components is determined by the laws that Parliament approves; it is an exogenous variable for monetary policy. The central bank can, however, influence the second component via monetary base creation and interest rates. Today, the state sector borrowing requirement accounts for 75 per cent of total domestic credit, while in 1973 this figure was 34 per cent. To fully offset the growth of the state sector borrowing requirement in excess of objectives by curbing credit to the non-state sector has become virtually impossible.

Figure 1

Households' financial assets (1)

(percentages)



(1) Currency plus bank, PO and special credit institution deposits, and securities.

Note: The change in financial assets in the first ratio is adjusted for the loss in purchasing power on the financial assets held at the beginning of the period and on the assets acquired during the year. The real effective yield is computed as a weighted average of those on different financial assets; it is net of taxes and deflated by the annualized recorded change in consumer prices in the two following quarters.

Total domestic credit is matched by the private sector's total financial assets and Italy's foreign debt. During 1985 both these aggregates have recorded further substantial increases.

The private sector's financial assets comprise: currency in circulation, bank deposits, and private sector and government securities. The most liquid component — made up of currency in circulation and bank and postal deposits and commonly known as M2 — is the one the monetary authorities are best able to control since it is directly related to the monetary base the central bank itself creates. Monetary policy has the aim of limiting the expansion of M2: over the five years 1980-84 it expanded at an average annual rate of 13 per cent, while other financial assets grew at a rate of 37 per cent and GDP at current prices by 18 per cent.

In its action the central bank considers a series of indicators, among which the following are especially important: credit to the private sector, the money supply (M2), real interest rates, and the exchange rate. None of these variables is taken as a lodestar to be followed without question, nor does monetary policy have full control over any of them.

The central bank studies the development of all these variables and adapts its interventions with the ultimate objective of achieving the targets set by economic policy every year.

5. How have these powers of control been exercised in 1985 and how will they be used in 1986?

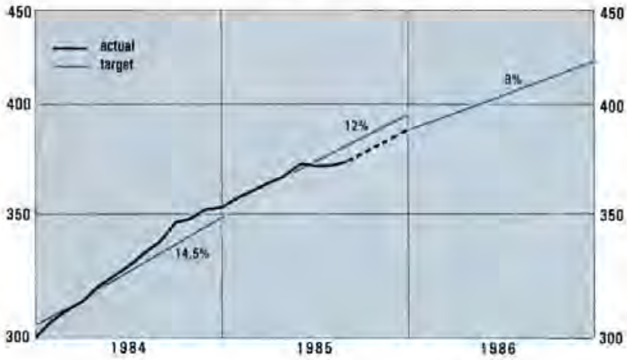
In 1985 the expansion in *credit to the private sector* has been less than the targeted amount. In the first eight months of the year about half the overshoot of the state sector borrowing requirement was offset by slower growth of credit to the productive sector, which benefited from a higher level of self-financing and a larger volume of share issues. The reduced availability of credit has not hindered the recovery in investment in machinery and equipment, which is expected to record real growth of over 11 per cent compared with 1984. If monetary policy had sought to offset the excess state sector borrowing in full, it would have been forced to hold the growth in credit to the private sector down to around 5 per cent.

Real interest rates have been high, but on average no higher than in the other major industrial countries. These high rates have been made necessary by the strong pressure the budget deficit has exerted on financial markets and by the persisting disequilibrium in Italy's external accounts; at the same time they are a natural concomitant of declining inflation. The level of real interest rates was not so high, however, as to prevent investment from leading the recovery.

Figure 2

Non-state sector financing

(trillion of lire; semi-log scale)



Management of the exchange rate was influenced by the course of the dollar. As long as the dollar was rising, the position of the lira in the EMS strengthened and the Bank of Italy intervened to moderate the upward pressure. When the dollar began to lose ground, the lira was able to recover part of the competitiveness that had been lost with respect to Italy's European partners. The July realignment provided leeway at a time when the negative effect on prices was virtually nil. The choices made reconciled the need to curb imported inflation with that of keeping Italian goods competitive.

The money supply again expanded less fast than total financial assets, but nonetheless faster than had been envisaged in September 1984. In particular, in the early months of the year a sharp rise in the public sector borrowing requirement, the Treasury's decision to limit its issues of securities by drawing on its current account with the Bank of Italy and the banks' adoption of a policy of promoting deposits led the public to shift away from securities to deposits. By April a correction in the yields on government securities and the banks' more careful attention to the cost of deposits had already widened the yield differential, thus helping to shift savers' preferences back to securities. If the borrowing requirement in the last quarter is below trend and the outcome for the year close to the forecast 107 trillion lire, growth in M2 could be kept to around 12 per cent, with other financial assets expanding by around 22 per cent.

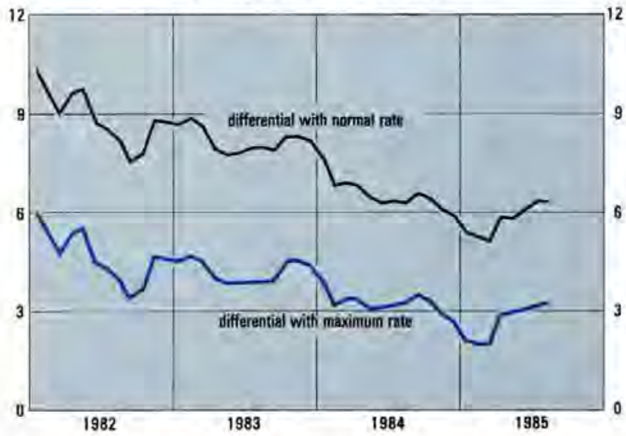
6. As regards 1986, the recent summary macroeconomic forecasts permit no more than an indication of the general lines of monetary policy.

The aim will be to keep the growth in domestic credit to the non-state sector in line with the target for nominal GDP (9 per cent) thus continuing the trend of the second half of 1985. On the hypothesis of a state sector borrowing requirement of 110 trillion lire, which implies an increase in the domestic public debt of around 18 per cent, total domestic credit would expand by around 14 per cent.

Figure 3

Differential between the yields on Treasury bills and bank deposits (1)

(net of withholding tax)



(1) The Treasury bill yield is the weighted average of the auction rates: annual rates, calendar year, compound interest.

The "normal" bank deposit rate is that applied to the greatest number of lira current accounts of between 10 and 25 million.

The "maximum" bank deposit rate is the highest applied to at least 30 lira current accounts.

The private sector's financial assets would grow at a similar rate. By the end of 1986 the stock of these assets is forecast to rise as a ratio to GDP by more than seven points to nearly 140 per cent.

Years in which the rate of growth in financial assets has been a multiple of that in income have made it increasingly difficult to keep the growth in the money supply within the limits inherent in the objectives set for nominal income. In order to achieve this result again in 1986, the private sector's other financial assets (mostly government securities) will once more have to increase at about twice the rate of the money supply, i.e. by over 20 per cent. If savers are to take up this enormous volume of securities, there will have to be expectations of a further fall in inflation and active management of the interest differential between bank deposits and government securities.

7. The macroeconomic scenario underlying the Government's Forecasting and Planning Report indicates a reduction in next year's external current account deficit, though it will not be very much smaller than this year's. Deficits on this scale aggravate the already heavy burden of Italy's foreign debt and are worrying in view of the effect they may have on our creditworthiness in international capital markets.

Italy's net external financial position, which was still positive in 1980, has steadily deteriorated and, net of the gold reserves, recorded a deficit of 23.5 billion dollars at the end of 1984. At the end of this year Italy's net external debt will amount to 30 billion dollars and exceed the market value of the gold reserves, currently worth around 21 billion dollars.

I remain convinced that in this situation there is room for small current account deficits financed by inflows of capital, provided that they are temporary and related to investment designed to improve competitiveness and enlarge productive capacity.

At first sight foreign borrowing appears painless compared with a policy of adjustment, which implies rigorous action with regard to both public finances and costs. The recent experience of numerous countries nonetheless confirms that excessive reliance on such borrowing leads inevitably to even heavier sacrifices and impairs nations' freedom of choice.

8. The present state of the Italian economy leaves monetary policy little room for manoeuvre. In fact, monetary policy can play only a limited part in the action designed to restore the lira to the stability that it enjoyed in the not so distant past and which the other industrial countries have with difficulty re-established. Pulling the monetary levers alone cannot produce the financial rehabilitation needed to complement the restructuring undertaken in industry, thereby creating the conditions for a new phase of growth and falling unemployment.

The root of the problem is the growing budget deficit and the consequent explosion of the public debt. Year after year the public sector spends more than it receives, even apart from the interest that, like every debtor, it has to pay to those from whom it borrows. The difference between receipts and outlays is financed with new debts, the flows of which dominate the money and capital markets alike.

Action must be taken to reduce the public deficit net of interest and to eliminate it over a period of years. This will lead to a further fall in both nominal and real interest rates, triggering a virtuous circle. It is difficult to decide to take this path and the first stretch is very steep. However, it is the only one leading to a steady reduction in the real burden of the public debt, which otherwise threatens to stifle the potential for growth of the whole Italian economy.

Table 1

Expansion of total domestic credit (TDC)

(changes in billions of lire; % growth rates) (1)

	State sector borrowing requirement			Lending to the non-state sector (b)		Total domestic credit (c) = (a) + (b)		Lending to the non-state sector/TDC (b)/(c)
	total	domestic (2) (a)						
	billions	billions	%	billions	%	billions	%	
1981	53,296	45,242	22.9	28,092	13.5	73,334	18.1	38.3
1982	72,653	68,987	28.0	31,404	13.4	100,391	20.9	31.3
1983	88,604	85,541	27.1	35,002	13.1	120,543	20.7	29.0
1984	95,351	91,364	22.8	47,106	15.3	138,470	19.5	34.0
1985 (3)	106,700	(4) 105,000	21.3	36,000	10.0	141,000	16.6	25.5
1984 Jan.-Aug.	53,499	51,807		26,613		78,420		
1985 Jan.-Aug.	69,661	(4) 69,624		15,165		84,789		
levels at end 1984		492,374		357,135		849,509		

(1) Growth rates refer to end of period levels. — (2) Net of securities issued to settle past debts. — (3) Estimates. — (4) The state-sector borrowing requirement does not include 13 trillion lire of settlement of past debts (of which 2 trillion in cash).

Table 2

State sector borrowing requirement

(amounts in billions of lire)

	Borrowing requirement	% GDP	Interest payments	% GDP	Borrowing requirement net of interest payments	% GDP	Debt as of 31 December	% GDP
1976	14,886	9.5	4,983	3.2	9,903	6.3	85,215	54.4
1977	22,566	11.9	8,000	4.2	14,566	7.7	109,872	57.8
1978	34,305	15.4	11,681	5.3	22,624	10.2	144,734	65.1
1979	30,371	11.2	14,262	5.3	16,109	6.0	175,065	64.8
1980	37,017	10.9	19,235	5.7	17,782	5.2	211,954	62.6
1981	53,296	13.3	27,328	6.8	25,968	6.5	266,168	66.3
1982	72,653	15.4	38,914	8.3	33,739	7.2	340,516	72.4
1983	88,604	16.4	47,328	8.8	41,276	7.7	432,152	80.2
1984	95,351	15.6	57,593	9.4	37,758	6.2	530,527	86.7
1985	106,700 (1)	15.7	62,310	9.2	44,390	6.5	649,712	95.7

(1) Net of settlement of past debts amounting to 12,485 billion lire (of which 2 trillion in cash and 10,485 billion in securities).

Table 3

Financing of the state sector borrowing requirement

	1980	1981	1982	1983	1984
			(billions of lire)		
Borrowing requirement	37,017	53,296	72,653	88,604	95,351
Financing:					
Securities excluding BI portfolio	24,340	33,663	52,363	74,789	75,410
PO funds and foreign debt (1)	2,937	5,400	7,614	9,301	9,913
Monetary base	9,740	14,233	12,676	4,514	10,028
of which: Treasury current account and extraordinary advances (2)	*8,944*	*6,186*	*6,598*	*−622*	*10,554*
			(percentage composition)		
Borrowing requirement	100.0	100.0	100.0	100.0	100.0
Financing:					
Securities excluding BI portfolio	65.8	63.2	72.1	84.4	79,1
PO funds and foreign debt (1)	7.9	10.1	10.5	10.5	10.4
Monetary base	26.3	26.7	17.4	5.1	10.5
of which: Treasury current account and extraordinary advances (2)	*24.2*	*11.6*	*9.1*	*−0.7*	*11.1*

(1) Includes the other minor items. — (2) An extraordinary advance of 8 trillion lire was granted in 1983 and repaid in 1984.

Table 4

Financing of the state sector borrowing requirement

	1st quarter	2nd quarter	3rd quarter	9 months	year
			(billions of lire)		
			1984		
Borrowing requirement	18,425	19,861	25,383	63,669	95,351
Financing:					
Securities excluding BI porfolio	11,231	23,045	22,789	57,065	75,410
PO funds and foreign debt (1)	2,092	666	1,456	4,214	9,913
Monetary base	5,102	–3,850	1,138	2,390	10,028
of which: Treasury current account and extraordinary advances (2)	*2,471*	*–4,663*	*2,746*	*554*	*10,554*
			1985		
Borrowing requirement	27,856	27,901	30,003 (3)	85,760 (3)	
Financing:					
Securities excluding BI portfolio	16,919	25,577	24,675	67,171 (4)	
PO funds and foreign debt (1)	801	2,728	2,527	6,056	
Monetary base	10,136	–404	2,801	12,533	
of which: Treasury current account	*8,201*	*–1,757*	*671*	*7,115*	
			(percentage composition)		
			1984		
Borrowing requirement	100.0	100.0	100.0	100.0	100.0
Financing:					
Securities excluding BI portfolio	60.9	116.0	89.8	89.6	79.1
PO funds and foreign debt (1)	11.4	3.4	5.7	6.6	10.4
Monetary base	27.7	–19.4	4.5	3.8	10.5
of which: Treasury current account and extraordinary advances (2)	*13.4*	*–23.5*	*10.8*	*0.9*	*11.1*
			1985		
Borrowing requirement	100.0	100.0	100.0 (3)	100.0 (3)	
Financing:					
Securities excluding BI portfolio	60.7	91.7	82.4	78.3 (4)	
PO funds and foreign debt (1)	2.9	9.8	8.3	7.1	
Monetary base	36.4	–1.5	9.3	14.6	
of which: Treasury current account	*29.4*	*–6.3*	*2.2*	*8.3*	

(1) Includes the other minor items. — (2) In January 1984 the extraordinary advance of 8 trillion lire was repaid. — (3) Provisional data. — (4) Includes settlements of past debts amounting to 2.2 trillion lire in securities and 2 trillion lire in cash.

Table 5

The public debt

(face value; end-of-period data)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	September 1985 (1)
	(amounts outstanding in billions of lire)										
Treasury bills	19,851	27,660	32,297	37,966	47,562	72,764	106,849	139,673	150,662	159,874	178,869
Medium and long-term securities	28,797	32,581	49,888	70,361	79,902	77,943	85,704	110,199	181,064	245,250	303,952
of which: Treasury bonds	*4,982*	*6,462*	*7,668*	*17,223*	*18,881*	*17,185*	*21,248*	*19,637*	*23,439*	*32,019*	*34,234*
Treasury credit certificates	—	—	*5,500*	*15,183*	*25,433*	*28,179*	*32,130*	*59,380*	*226,900*	*183,900*	*240,943*
PO savings	13,387	16,023	19,234	24,105	30,853	33,048	35,639	39,225	44,162	50,219	52,378
Treasury c/c overdraft and extraordinary advances (2)	3,522	5,216	4,796	6,706	10,182	19,126	25,312	31,910	31,288	41,842	48,957
(Treasury c/c overdraft limit)	*(4,530)*	*(6,204)*	*(7,782)*	*(11,195)*	*(15,358)*	*(20,595)*	*(25,331)*	*(29,620)*	*(36,757)*	*(43,124)*	*(50,688)*
Foreign debt	1,061	1,474	1,616	1,941	2,392	3,433	6,414	9,549	12,144	15,979	17,848
Other debt	17,114	19,562	16,170	17,195	19,416	21,365	22,272	29,861	35,653	47,314	44,059
Total debt	83,732	102,516	124,001	158,274	190,307	227,679	282,190	360,417	454,973	560,478	646.063
	(percentage composition)										
Treasury bills	23.7	27.0	26.0	24.0	25.0	32.0	37.9	38.7	33.1	28.5	27,7
Medium and long-term securities	34.4	31.8	40.2	44.4	42.0	34.2	30.4	30.6	39.8	43.7	47.0
of which: Treasury bonds	*5.9*	*6.3*	*6.2*	*10.9*	*9.9*	*7.5*	*7.5*	*5.4*	*5.1*	*5.7*	*5.3*
Treasury credit certificates	—	—	*4.4*	*9.6*	*13.4*	*12.4*	*11.0*	*16.5*	*27.9*	*32.8*	*37.3*
PO savings	16.0	15.6	15.5	15.2	16.2	14.5	12.6	10.9	9.7	9.0	8.1
Treasury c/c overdraft and extraordinary advances (2)	4.2	5.0	3.9	4.2	5.3	8.4	9.0	8.8	6.9	7.5	7.6
Foreign debt	1.3	1.4	1.3	1.3	1.3	1.5	2.3	2.6	2.7	2.8	2.8
Other debt	20.4	19.2	13.1	10.9	10.2	9.4	7.8	8.4	7.8	8.5	6.8
Total debt	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
$\frac{\text{Public debt}}{\text{GDP}}$ %	66.8	65.4	65.2	71.2	70.4	67.2	70.3	76.6	84.4	91.6	(3) 98,2

(1) Provisional data. — (2) An extraordinary advance of 8 trillion lire was granted by the Bank of Italy in 1983 and repaid in 1984. — (3) On the basis of a state sector borrowing requirement for the entire year of 106.700 trillion lire.

Table 6

Growth of monetary and credit aggregates in 1984-85

(annualized percentage changes) (1)

	1984				1985		
	1st four months	2nd four months	3rd four months	year	1st four months	2nd four months (2)	8 months (2)
Bank reserves (3)	6.8	11.7	17.5	12.2	14.7	10.5	12.8
Bank deposits	9.4	12,4	14.2	11.6	17.9	9.9	13.9
Bank loans (4)	20.6	21.3	9.8	17.1	15.8	6.4	11.0
Lending to the non-state sector (4)	15.1	17.3	13.3	15.3	12.3	6.3	9.3

(1) Seasonally adjusted. — (2) Provisional data. — (3) Adjusted for the change in the compulsory reserve ratio and for deposits against overshoots of the lending ceiling. — (4) Adjusted for distortions of banking statistics connected with the abolition of the lending ceiling.
N.B.: The end-1984 figures for bank reserves and monetary base have been adjusted for the fortuitous increase in bank' holdings of cash.

Table 7

Italy's external financial position

(billions of dollars)

	1979	1980	1981	1982	1983	1984	1985 (2)
Assets	**37.4**	**40.8**	**33.1**	**28.4**	**32.4**	**32.2**	....
net foreign reserves (1)	17.9	22.4	19.3	13.7	19.7	20.7	....
loans	3.4	3.6	3.6	3.8	3.8	4.3	....
net trade credit	16.1	14.8	10.2	10.9	8.9	7.2	....
Liabilites	**26.2**	**39.5**	**46.6**	**49.7**	**53.4**	**55.7**	....
loans	17.6	23.6	33.2	39.1	40.5	40.6	....
banks' net foreign debt	8.6	15.9	13.4	10.6	12.9	15.1	....
Balance	**11.2**	**1.3**	**−13.5**	**−21.3**	**−21.0**	**−23.5**	**−30.0**

(1) Net of gold reserves. — (2) Estimates.

Appendix

Statistical tables

The world economy

The italian economy

Money, credit and interest rates

Table a1

Gross product, implicit price deflator and current account balance

	US	Japan	Germany	France	UK	Italy	Canada
			Real GNP (1) *(% changes on previous period; seasonally adjusted data)*				
1979	2.8	5.2	4.0	3.3	2.1	4.9	3.2
1980	−0.3	4.8	1.9	1.0	−2.2	3.9	1.1
1981	2.5	4.0	−0.2	0.2	−1.3	0.2	3.3
1982	−2.1	3.3	−1.0	2.0	1.8	−0.5	−4.4
1983	3.7	3.4	1.3	0.7	3.2	−0.4	3.3
1984	6.8	5.8	2.6	1.5	1.6	2.6	5.0
1984 — 1st qtr.	2.4	1.4	1.5	0.9	0.6	0.8	1.0
2nd "	1.7	1.8	−1.9	−0.3	−1.0	−0.3	0.7
3rd "	0.4	0.6	2.1	1.2	0.1	1.5	1.6
4th "	1.0	2.4	1.1	−0.2	2.5	0.2	0.8
1985 — 1st qtr.	0.1	0.1	−1.0	−0.3	0.6	0.2	0.9
2nd "	0.4	1.9	2.0	0.6	0.7	1.3	1.0
			GNP deflator (1) *(% changes on previous period; seasonally adjusted data)*				
1979	8.7	2.5	4.0	10.5	14.5	15.9	10.3
1980	9.2	2.9	4.5	11.8	19.8	20.8	11.4
1981	9.6	2.7	4.2	11.5	11.8	18.3	10.6
1982	6.0	1.8	4.6	11.7	7.2	17.8	10.3
1983	3.9	0.5	3.3	9.4	5.3	15.0	5.3
1984	3.7	0.6	1.9	6.9	4.2	10.7	2.8
1984 — 1st qtr.	1.1	0.4	−0.2	1.1	1.2	3.2	0.8
2nd "	0.8	0.6	−0.5	1.7	0.6	2.7	1.3
3rd "	1.0	0.3	0.4	1.9	1.2	1.0	−0.2
4th "	0.6	−0.3	1.3	0.8	1.2	1.6	0.6
1985 — 1st qtr.	1.3	0.8	−0.4	1.6	1.8	2.4	1.5
2nd "	0.7	....	....	....	....	3.6	....
			Current account balance (2) *(billions of dollars)*				
1979	−1.0	−8.8	−6.2	5.1	−1.0	5.5	−4.1
1980	1.9	−10.7	−16.0	−4.2	8.7	−9.7	−0.9
1981	6.6	4.8	−4.8	−4.8	15.1	−8.1	−5.1
1982	−9.2	6.9	3.1	−12.1	8.5	−5.5	2.1
1983	−40.9	20.8	4.6	−4.9	3.8	0.8	1.4
1984	−101.6	35.0	6.0	−0.1	−0.1	−2.9	1.9
1984 — 1st qtr.	−19.1	4.8	1.3	−1.6	0.3	−1.1	−1.2
2nd "	−24.5	10.0	0.4	0.3	−1.4	−0.2	0.3
3rd "	−32.5	8.7	−0.8	0.5	−0.6	0.7	1.4
4th "	−25.5	11.5	5.1	0.7	1.6	−2.3	1.4
1985 — 1st qtr.	−30.3	6.8	1.7	−1.8	−0.6	−2.9	−0.6
2nd "	−31.8	13.3	3.0	....	1.5	....	....

Source: National bulletins, OECD and IMF.
(1) GNP for the US, Japan, Germany and Canada; "marchand" GDP for France; GDP for the UK and Italy. — (2) Seasonally adjusted data for the US and the UK.

Table a2

Industrial production

(% changes on previous period; seasonally adjusted data)

	US	Japan	Germany	France	UK	Italy	Canada
1979	4.4	7.1	5.2	4.2	3.8	6.6	6.2
1980	−3.7	4.6	—	—	−6.5	5.5	−1.5
1981	2.7	1.0	−1.5	−1.0	−3.5	−1.6	0.9
1982	−8.2	0.4	−2.9	−2.0	2.2	−3.1	−10.7
1983	6.5	3.6	0.7	1.0	3.3	−3.2	6.0
1984	10.7	11.0	3.4	2.0	1.0	3.1	8.5
1983 — 2nd qtr.........	4.3	1.8	2.1	−1.0	−0.1	−0.7	2.8
3rd "	5.1	2.7	—	1.0	2.4	1.1	3.4
4th "	2.5	2.7	3.1	1.0	1.2	2.1	4.7
1984 — 1st qtr.........	2.7	3.3	—	1.0	0.4	−0.9	0.6
2nd "	2.1	2.5	−4.0	−2.0	−1.9	2.5	0.9
3rd "	1.5	1.7	6.3	2.0	—	0.8	3.0
4th "	−0.6	2.6	2.0	—	1.0	−0.8	−0.1
1985 — 1st qtr.........	0.5	−0.7	—	....	2.1	0.4	0.1
2nd "	—	2.8	1.0	....	2.1	1.7	0.9
1984 — July	1.0	0.4	14.6	5.1	−1.0	−3.4	3.4
Aug.	—	0.7	−2.0	—	0.2	4.5	−0.6
Sept.	−0.6	−0.6	1.0	−2.9	1.2	−0.3	−2.0
Oct.	−0.4	2.8	1.0	1.0	−0.1	−1.9	—
Nov.	0.3	0.1	1.0	−2.0	0.1	−1.2	1.6
Dec.	—	−0.5	−1.0	−2.0	0.6	2.3	0.9
1985 — Jan.	0.2	0.3	1.0	−2.1	0.2	−4.5	−0.7
Feb.	0.2	−0.2	−1.0	4.2	0.2	6.2	−0.3
Mar.	0.4	−1.4	1.0	2.0	2.1	−0.2	0.1
Apr.	−0.3	2.6	—	−3.0	0.3	−1.4	0.6
May	−0.2	2.0	—	2.0	1.0	1.3	−0.4
June	0.3	−2.0	1.7	−1.5	−0.6	1.4	1.5
July	0.2	1.4	1.8	....	....	−3.1	1.9

Source: National bulletins and OECD.

Table a3

Consumer prices

(% changes on corresponding period)

	US	Japan	Germany	France	UK	Italy	Canada
1979	11.2	3.6	4.2	10.8	13.5	14.7	9.1
1980	13.5	8.0	5.5	13.5	17.9	21.2	10.1
1981	10.4	4.9	6.3	13.4	11.9	17.8	12.5
1982	6.1	2.7	5.3	11.8	8.6	16.5	10.8
1983	3.2	1.9	3.3	9.6	4.6	14.7	5.9
1984	4.3	2.2	2.4	7.4	5.0	10.8	4.3
1983 — 2nd qtr.	3.4	2.5	3.3	9.0	4.4	16.0	5.9
3rd "	2.5	1.8	3.1	9.8	4.4	13.9	5.4
4th "	3.3	1.5	2.7	9.8	4.4	12.8	4.5
1984 — 1st qtr.	4.5	2.3	2.9	8.8	4.6	12.1	5.2
2nd "	4.3	2.1	2.9	7.8	4.6	11.4	4.6
3rd "	4.2	2.0	1.9	7.3	4.7	10.5	3.9
4th "	4.0	2.4	2.0	6.8	5.2	9.4	3.7
1985 — 1st qtr.	3.5	2.0	2.3	6.5	5.9	9.3	3.8
2nd "	3.7	2.0	2.5	6.4	7.3	9.4	3.9
1984 — July	4.1	2.6	2.7	7.5	4.5	10.7	4.2
Aug.	4.3	2.0	1.7	7.4	5.0	10.7	3.7
Sept.	4.2	1.4	1.5	7.1	4.7	10.1	3.8
Oct.	4.2	2.1	2.1	7.0	5.0	9.5	3.4
Nov.	4.0	2.2	2.1	6.9	4.9	9.2	4.0
Dec.	4.0	2.7	2.0	6.7	4.6	9.4	3.8
1985 — Jan.	3.6	2.9	2.1	6.5	5.1	9.3	3.6
Feb.	3.5	1.5	2.3	6.4	5.4	9.3	3.7
Mar.	3.6	1.5	2.6	6.4	6.0	9.4	3.7
Apr.	3.6	1.9	2.5	6.5	6.9	9.4	3.8
May	3.7	1.5	2.6	6.5	7.0	9.5	3.9
June	3.7	2.5	2.3	6.4	6.9	9.4	4.1
July	3.6	2.4	2.3	6.1	6.9	9.4	3.8
Aug.	3.4	2.3	2.1	5.6	6.2	9.1	4.0

Source: National bulletins and OECD.

Table a4

Wholesale prices

(% changes on corresponding period)

	US	Japan	Germany	France	UK	Italy	Canada
1979	12.8	7.6	5.1	13.6	10.9	15.4	14.5
1980	13.6	17.6	7.1	8.7	14.0	20.0	13.4
1981	9.0	1.0	6.0	13.0	9.5	16.6	10.2
1982	1.8	2.0	4.8	8.8	7.8	13.9	6.1
1983	1.8	−1.9	1.5	11.4	5.5	9.7	3.4
1984	2.7	—	2.8	13.1	6.0	10.4	4.1
1983 — 2nd qtr.	0.9	−1.9	1.3	9.8	5.7	10.1	3.3
3rd "	0.9	−2.9	1.2	12.0	5.4	9.2	3.4
4th "	1.9	−3.8	1.6	15.1	5.6	9.1	3.5
1984 — 1st qtr.	2.7	−2.0	3.0	16.3	5.9	10.8	4.5
2nd "	3.6	−1.0	3.1	14.1	6.3	11.5	4.1
3rd "	2.7	—	2.7	12.1	6.2	10.4	3.9
4th "	0.9	1.0	2.5	10.3	6.1	8.8	3.8
1985 — 1st qtr.	—	1.0	2.7	8.7	5.9	8.4	3.1
2nd "	−0,9	—	2.6	6.5	5.6	8.3	2.6
1984 — July	2.7	—	3.1	14.6	6.3	10.8	4.1
Aug.	2.7	—	2.3	12.1	6.2	10.6	3.8
Sept.	0.9	—	2.5	12.0	6.0	9.6	3.7
Oct.	0.9	1.0	2.7	12.7	6.2	9.4	3.5
Nov.	1.8	1.0	2.5	10.3	6.1	8.9	3.9
Dec.	0.9	1.0	2.4	8.8	6.0	8.2	3.8
1985 — Jan.	—	1.0	2.6	8.7	6.1	8.2	3.5
Feb.	—	—	2.8	9.4	6.1	8.0	3.2
Mar.	−0.9	1.0	2.8	7.9	5.5	8.9	3.0
Apr.	−0.9	1.0	2.7	6.5	5.7	8.7	2.5
May	−0.9	1.0	2.6	6.5	5.6	8.3	2.7
June	−0.9	—	2.4	6.2	5.6	8.0	2.5
July	0.9	−1.2	2.3	4.1	5.7	7.5	2.2
Aug.	0.8	−1.6	2.2	3.6	5.7	6.9	2.0

Source: National bulletins and OECD.

Table a5

Short-term interest rates

	US	Japan	Germany	France	UK	Italy	Canada
			Official reference rates (1) *(end-of-period data)*				
1979 — Dec.	12.0	6.2	6.0	9.5	17.0	15.0	14.0
1980 — Dec.	13.0	7.2	7.5	9.5	14.0	16.5	17.3
1981 — Dec.	12.0	5.5	7.5	9.5	14.5	19.0	14.7
1982 — Dec.	8.5	5.5	5.0	9.5	10.1	18.0	10.1
1983 — Dec.	8.5	5.0	4.0	9.5	9.0	17.0	10.0
1984 — Aug.	9.0	5.0	4.5	9.5	10.5	15.5	12.4
Sept.	9.0	5.0	4.5	9.5	10.5	16.5	12.3
Oct.	9.0	5.0	4.5	9.5	10.5	16.5	11.7
Nov.	8.5	5.0	4.5	9.5	9.6	16.5	10.8
Dec.	8.0	5.0	4.5	9.5	9.6	16.5	10.2
1985 — Jan.	8.0	5.0	4.5	9.5	14.0	15.5	9.7
Feb.	8.0	5.0	4.5	9.5	14.0	15.5	11.0
Mar.	8.0	5.0	4.5	9.5	13.3	15.5	11.2
Apr.	8.0	5.0	4.5	9.5	12.6	15.5	9.8
May	7.5	5.0	4.5	9.5	12.6	15.5	9.6
June	7.5	5.0	4.5	9.5	12.5	15.5	9.6
July	7.5	5.0	4.5	9.5	11.5	15.5	9.3
Aug.	7.5	5.0	4.0	9.5	11.5	15.5	9.2
			Money market rates (2) *(monthly averages)*				
1979 — Dec.	13.8	8.1	9.6	12.2	15.9	15.7	13.7
1980 — Dec.	18.9	9.5	10.2	10.9	13.1	17.0	17.0
1981 — Dec.	12.4	6.8	10.8	15.5	14.5	21.4	14.4
1982 — Dec.	9.0	6.9	6.6	12.9	9.9	19.1	9.8
1983 — Dec.	9.5	6.4	6.5	12.3	8.9	17.0	9.7
1984 — Aug.	11.7	6.1	6.0	11.4	10.2	15.0	12.1
Sept.	11.3	6.3	5.8	11.4	10.0	15.5	12.0
Oct.	10.0	6.2	6.1	11.0	10.0	15.4	11.5
Nov.	9.4	6.1	6.0	11.2	9.2	15.0	10.5
Dec.	8.4	6.4	5.8	11.0	9.1	14.7	9.8
1985 — Jan.	8.4	6.2	5.9	10.6	10.6	13.9	9.5
Feb.	8.5	6.2	6.2	10.6	12.7	13.5	11.3
Mar.	8.6	6.4	6.4	10.7	13.0	13.4	10.4
Apr.	8.3	6.1	6.0	10.5	11.9	14.3	9.8
May	8.0	6.0	5.8	10.2	11.9	14.2	9.5
June	7.5	6.2	5.7	10.2	11.9	14.2	9.3
July	7.8	6.2	5.3	9.9	11.4	14.1	9.1
Aug.	8.0	6.2	4.8	9.7	11.0	14.0	9.2

Source: National bulletins.

(1) UK: base rate; all other countries: discount rate. — (2) US: Federal funds rate; Japan: call-money rate; Germany: 3-month interbank rate; France: call-money rate; UK: 3-month Treasury bill rate; Italy: auction rate on 6-month Treasury bills; Canada: end-of-period rate on 3-month Treasury bills.

Table a6

Long-term interest rates and share price indices

(monthly averages)

	US	Japan	Germany	France	UK	Italy	Canada
				Bond rates (1)			
1979 — Dec.	10.2	8.6	7.9	11.5	14.7	13.9	11.3
1980 — Dec.	12.5	9.4	8.9	13.7	13.7	16.2	12.7
1981 — Dec.	13.7	7.9	9.7	15.8	15.7	21.3	15.3
1982 — Dec.	10.6	7.5	7.9	14.8	11.3	19.6	11.7
1983 — Dec.	12.0	7.3	8.2	13.3	10.6	17.7	12.0
1984 — Aug.	12.7	6.9	7.9	12.5	11.0	15.3	12.9
Sept.	12.4	6.8	7.6	12.0	10.8	15.6	12.6
Oct.	12.0	6.6	7.4	11.2	10.7	15.4	12.2
Nov.	11.7	6.4	7.2	11.4	10.3	15.2	11.8
Dec.	11.6	6.3	7.0	11.9	10.5	14.5	11.7
1985 — Jan.	11.6	6.3	7.1	11.4	11.0	13.3	11.4
Feb.	11.7	6.8	7.4	11.4	11.1	13.3	12.3
Mar.	12.1	6.6	7.6	11.4	10.9	13.6	11.9
Apr.	11.7	6.5	7.3	11.1	10.7	13.6	11.5
May	11.2	6.4	7.1	10.8	10.9	13.9	10.8
June	10.6	6.4	7.9	10.9	10.7	13.9	10.9
July	10.6	6.2	6.7	10.7	10.4	14.1	10.9
Aug.	10.8	6.2	6.5	10.8	10.5	14.1	10.8
				Share price indices (1975 = 100)			
1979 — Dec.	115.5	145.5	106.1	141.4	173.4	79.5	181.3
1980 — Dec.	157.1	157.0	104.9	154.4	219.9	137.8	226.9
1981 — Dec.	145.3	181.6	106.5	125.8	232.9	138.9	195.4
1982 — Dec.	163.6	187.1	114.3	137.8	285.0	131.0	195.8
1983 — Dec.	193.1	227.6	160.3	207.6	350.0	161.1	255.2
1984 — Aug.	194.3	260.8	156.8	225.9	383.5	183.2	238.9
Sept.	194.9	255.7	163.9	239.6	393.9	183.0	239.3
Oct.	194.0	270.0	171.0	247.0	401.0	183.2	235.3
Nov.	195.5	274.7	170.8	247.3	415.3	181.5	236.9
Dec.	193.2	277.2	173.4	247.6	436.4	187.8	240.0
1985 — Jan.	201.2	297.1	181.6	258.9	453.5	210.3	259.5
Feb.	212.6	302.7	185.4	274.4	461.4	236.2	259.5
Mar.	210.5	319.1	192.7	283.5	468.0	236.7	261.3
Apr.	212.0	312.1	193.9	294.3	465.5	257.2	263.5
May	216.3	315.3	200.3	304.7	476.8	268.6	273.6
June	221.8	324.2	217.4	311.4	466.6	285.8	271.3
July	225.8	332.6	221.0	298.0	450.8	303.3	277.9
Aug.	221.6	322.8	223.0	296.4	470.1	314.3	....

Source: National bulletins.
(1) Rates on government bonds. For France, end-of-period data.

Table a7

Interest rates and forward exchange rates on international markets

(end-of-period data)

	US dollar	Japanese yen	Deutsche-mark	Pound sterling	US dollar	Japanese yen	Deutsche-mark	Pound sterling
	rates on 3-month Eurodeposits				**rates on 12-month Eurodeposits**			
1979 — Dec.	14.44	8.31	8.56	16.75	12.87	7.94	8.12	15.25
1980 — Dec.	17.55	9.25	8.87	14.75	14.87	9.37	8.93	14.00
1981 — Dec.	13.75	6.12	10.50	15.69	14.75	6.87	10.25	15.37
1982 — Dec.	9.19	6.75	5.88	10.44	9.63	6.81	6.00	10.31
1983 — Dec.	9.81	6.31	5.88	9.31	10.38	6.44	6.38	9.81
1984 — Dec.	8.63	6.19	5.50	9.88	9.81	6.13	5.56	10.19
1985 — Jan.	8.44	6.31	6.00	12.50	9.31	6.25	6.13	11.88
Feb.	9.44	6.38	6.06	13.88	10.75	6.31	6.56	12.69
Mar.	9.00	6.31	5.88	13.13	10.13	6.31	6.25	11.94
Apr.	8.69	6.25	5.81	12.69	9.75	6.31	6.06	12.13
May	7.63	6.25	5.56	12.44	8.38	6.31	5.56	12.01
June	7.75	6.25	5.44	12.44	8.25	6.31	5.63	11.94
July	8.19	6.31	4.81	11.19	8.88	6.25	5.00	10.88
Aug.	8.00	6.38	4.50	11.63	8.56	6.31	4.69	11.06
Sept.	8.09	6.44	4.48	11.47	8.57	6.40	4.73	11.01
	3-month forward exchange rates *(against the dollar)*				**12-month forward exchange rates** *(against the dollar)*			
1979 — Dec.		6.13	5.88	−2.31		4.93	4.75	−2.38
1980 — Dec.		8.30	8.68	2.80		5.50	5.94	0.87
1981 — Dec.		7.63	3.25	−1.94		7.88	4.50	−0.62
1982 — Dec.		2.44	3.31	−1.25		2.82	3.63	−0.68
1983 — Dec.		3.50	3.93	0.50		3.94	4.00	0.57
1984 — Dec.		2.44	3.13	−1.25		3.68	4.25	−0.38
1985 — Jan.		2.13	2.44	−4.06		3.06	3.18	−2.57
Feb.		3.06	3.38	−4.44		4.44	4.19	−1.94
Mar.		2.69	3.12	−4.13		3.82	3.88	−1.81
Apr.		2.44	2.88	−4.00		3.44	3.69	−2.38
May		1.38	2.07	−4.81		2.07	2.82	−3.63
June		1.50	2.31	−4.69		1.94	2.62	−3.69
July		1.88	3.38	−3.00		2.63	3.88	−2.00
Aug.		1.62	3.50	−3.63		2.25	3.87	−2.50
Sept.		1.65	3.61	−3.38		2.17	3.84	−2.44

Source: Morgan Guaranty, *World Financial Markets.*

Lira exchange rates and the price of gold

(period average)

	Lire per unit of currency								Gold price (dollars per ounce) (1)
	US dollar	Japanese yen	Deutsche-mark	French franc	Pound sterling	Swiss franc	SDR	ECU	
1979	831.02	3.8139	453.46	195.33	1,762.7	499.53	1,073.5	1,138.5	512.00
1980	855.51	3.8031	471.08	202.64	1,992.0	510.85	1,114.7	1,189.2	589.50
1981	1,138.0	5.1567	502.91	209.18	2,286.7	580.30	1,340.4	1,263.4	397.50
1982	1,353.6	5.4382	557.26	206.08	2,362.0	666.47	1,493.2	1,323.7	456.90
1983	1,519.2	6.3995	594.53	199.43	2,301.7	722.77	1,623.7	1,349.7	381.50
1984	1,756.5	7.3905	617.27	201.08	2,339.8	747.54	1,799.1	1,381.1	308.30
1983 — 3rd qtr. ..	1,574.3	6.4950	595.57	197.71	2,376.3	732.78	1,659.5	1,354.9	405.00
4th " ..	1,624.4	6.9406	606.71	198.98	2,386.9	752.36	1,709.7	1,370.2	381.50
1984 — 1st qtr. ..	1,662.4	7.2032	615.41	200.33	2,385.2	756.72	1,743.5	1,381.6	388.50
2nd " ..	1,676.9	7.2958	618.29	201.20	2,339.6	745.89	1,752.3	1,382.6	373.05
3rd " ..	1,797.4	7.3831	616.26	200.81	2,332.3	736.22	1,820.8	1,379.5	343.75
4th " ..	1,809.2	7.6843	619.20	202.00	2,301.0	751.21	1,879.8	1,380.6	308.30
1985 — 1st qtr. ..	2,022.9	7.8539	621.01	203.14	2,254.4	733.86	1,957.8	1,381.7	329.25
2nd " ..	1,970.0	7.8578	638.02	209.43	2,474.1	759.65	1,954.4	1,430.4	317.75
3rd " ..	1,896.0	7.9352	664.42	217.87	2,602.1	806.21	1,947.3	1,484.2	330.87
1984 — Aug.	1,781.5	7.3488	616.94	201.00	2,337.9	736.11	1,810.6	1,381.1	348.25
Sept.	1,867.6	7.6174	617.62	201.27	2,350.4	746.93	1,867.7	1,383.2	343.75
Oct.	1,899.8	7.6947	619.00	201.84	2,317.6	752.28	1,886.1	1,381.5	333.50
Nov.	1,859.2	7.6449	621.88	202.71	2,310.1	754.40	1,864.2	1,386.1	329.00
Dec.	1,912.9	7.7154	616.46	201.41	2,270.8	746.39	1,889.1	1,374.1	308.30
1985 — Jan.	1,949.0	7.6712	615.14	200.94	2,199.7	733.39	1,905.5	1,367.5	306.65
Feb.	2,036.1	7.8232	618.12	202.29	2,230.7	727.55	1,957.8	1,374.5	287.75
Mar.	2,083.7	8.0674	629.78	206.21	2,332.9	740.66	2,007.4	1,403.6	329.25
Apr.	1,971.9	7.8391	638.68	209.34	2,447.0	761.39	1,953.7	1,430.0	321.35
May	1,984.2	7.8832	637.51	209.07	2,473.7	757.84	1,963.1	1,429.2	314.00
June	1,954.1	7.8513	637.89	209.19	2,501.7	759.73	1,948.0	1,432.2	317.75
July	1,914.4	7.8700	652.50	214.34	2,617.9	787.31	1,952.1	1,467.2	327.50
Aug.	1,871.4	7,8896	670.45	219.56	2,593.1	816.34	1,933.7	1.493.1	336.79
Sept.	1,902.3	8.0460	670.33	219.73	2,595.2	814.98	1,956.1	1,492.5	328.34

(1) End-of-period data.

Table a9

Nominal effective exchange rates (1)

(indices, 1980 = 100)

	US	Canada	Japan	Germany	France	UK	Italy	Switzerland
1979	99.7	100.0	104.8	99.6	99.9	91.0	104.2	102.1
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	108.7	100.3	113.7	96.8	94.0	102.3	90.8	102.5
1982	119.8	100.1	106.8	102.6	86.9	98.4	85.1	110.8
1983	122.9	101.6	117.0	106.5	80.5	91.2	82.0	115.8
1984	130.9	98.4	124.2	106.1	77.7	87.5	78.6	114.7
1983 — 3rd qtr.	125.2	102.1	116.2	105.9	79.1	93.3	81.5	116.3
4th "	125.0	101.7	121.4	106.2	78.3	91.9	80.1	117.5
1984 — 1st qtr.	125.7	100.5	124.1	106.7	77.9	90.5	79.1	116.8
2nd "	127.0	97.7	125.7	107.0	78.1	88.4	78.9	115.0
3rd "	133.8	97.5	122.8	105.8	77.5	87.0	78.5	112.9
4th "	137.0	98.0	124.3	105.1	77.2	84.2	77.7	114.2
1985 — 1st qtr.	144.0	96.8	123.0	104.5	77.1	81.3	77.2	110.6
2nd "	139.6	94.5	122.7	105.1	77.8	88.2	75.0	111.5
3rd "	132.6	94.1	124.2	106.8	78.9	91.2	72.2	115.2
1984 — Aug.	132.7	98.1	122.7	106.0	77.6	87.4	78.5	112.9
Sept.	135.9	98.0	123.8	105.0	77.0	86.5	77.8	113.5
Oct.	137.3	98.0	124.1	104.9	77.1	84.8	77.6	114.1
Nov.	135.3	97.8	124.5	105.5	77.4	84.7	77.5	114.5
Dec.	138.3	98.1	124.4	104.7	77.1	83.1	77.9	113.9
1985 — Jan.	141.0	98.5	123.0	104.8	77.2	80.5	78.1	112.1
Feb.	145.1	97.0	122.5	104.4	77.0	80.6	77.6	110.1
Mar.	145.8	94.8	123.5	104.3	77.1	82.8	75.7	109.7
Apr.	139.8	94.8	122.3	105.4	77.8	87.2	75.0	111.9
May	140.4	94.1	122.8	104.9	77.8	88.2	74.9	111.1
June	138.7	94.4	122.9	105.1	77.7	89.3	75.0	111.5
July	134.2	94.5	123.4	105.9	78.4	92.6	73.1	113.5
Aug.	131.0	94.3	124.1	107.5	79.2	90.6	71.9	116.3
Sept.	132.4	93.6	125.2	107.0	79.0	90.4	71.7	115.7

Source: Based on IMF data. For the method of calculation, see the "*Note Metodologiche*" section of the Appendix to the Bank of Italy's *Relazione Annuale sul 1983.*

(1) Weighted on the basis of shares in trade with the 14 leading countries.

Table a10

Real effective exchange rates (1)

(indices, 1980 = 100)

	US	Canada	Japan	Germany	France	UK	Italy	Switzerland
1979	96.6	101.7	103.2	103.7	101.5	88.6	94.9	107.7
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	112.6	100.6	104.8	93.7	96.2	103.0	96.4	100.0
1982	121.4	103.1	94.1	97.0	92.8	99.9	95.8	103.9
1983	122.5	106.5	99.4	97.1	92.1	94.0	98.3	104.7
1984	128.6	104.6	101.5	93.5	96.6	91.0	97.9	101.6
1983 — 2nd qtr.	121.0	106.7	98.9	98.1	90.7	95.3	99.0	104.0
3rd "	124.7	107.4	97.8	96.1	92.0	96.1	97.7	105.1
4th "	124.2	106.7	101.5	95.7	93.3	94.7	97.0	105.1
1984 — 1st qtr.	124.2	106.2	102.6	95.0	94.7	93.3	97.0	103.9
2nd "	125.2	103.7	102.7	94.3	96.6	92.2	97.8	102.0
3rd "	131.2	104.0	100.0	92.8	97.5	90.6	98.2	100.0
4th "	133.7	104.5	100.7	91.9	97.6	88.1	98.5	101.0
1985 — 1st qtr.	138.8	104.3	99.0	91.1	98.0	85.5	99.1	98.1
2nd "	135.0	101.7	97.3	91.1	98.7	94.0	97.7	98.0
1984 — June	127.0	103.0	101.5	94.2	97.0	91.8	98.1	100.7
July	130.6	102.7	99.2	93.4	97.5	90.7	98.6	99.4
Aug.	130.3	104.6	100.0	92.9	97.1	90.9	98.2	100.1
Sept.	132.6	104.5	101.0	92.0	97.5	90.1	97.9	100.1
Oct.	134.2	104.2	100.7	92.0	97.5	88.5	98.0	101.2
Nov.	132.2	104.2	100.7	92.2	98.0	88.6	98.5	101.2
Dec.	134.6	105.0	100.6	91.6	97.6	87.2	99.0	100.6
1985 — Jan.	136.4	105.8	99.1	91.5	98.0	84.4	100.1	99.4
Feb.	139.7	104.5	98.5	91.0	97.9	84.7	99.6	97.7
Mar.	140.3	102.5	99.0	90.7	98.0	87.4	97.7	97.1
Apr.	135.0	102.1	97.4	91.4	98.6	92.8	97.1	98.7
May	135.9	101.3	97.4	91.0	98.9	94.0	97.7	97.6
June	134.3	101.7	97.2	90.8	98.5	95.1	98.3	97.7
July	129.9	102.2	97.7	92.0	99.1	99.6	96.7	99.2
Aug.	127.4	101.6	97.7	93.5	99.7	97.5	96.0	101.0

Source: Based on IMF, OECD and Istat data. For the method of calculation, see the "*Note Metodologiche*" section of the Appendix to the Bank of Italy's *Relazione Annuale sul 1983*.

(1) Calculated on the basis of wholesale prices. —

Table a11

Sources and uses of income

(% changes on previous period)

	SOURCES			USES				
				Gross fixed investment				
	GDP	Imports	Total	Buildings	Equipment and vehicles	Total	Other domestic uses	Exports
				At constant 1970 prices				
1979	4.9	13.8	6.3	2.9	9.6	5.8	5.6	9.1
1980	3.9	8.3	4.7	4.7	15.0	9.4	6.5	−4.3
1981	0.2	−5.3	−0.8	0.5	0.8	0.6	−2.8	5.2
1982	−0.5	1.5	−0.2	−3.2	−7.3	−5.2	0.8	0.4
1983	−0.4	0.1	−0.3	−1.9	−6.0	−3.8	−0.7	3.3
1984	2.6	9.6	3.8	−0.5	9.5	4.1	2.7	7.0
1983 — 2nd qtr.	0.2	−1.9	−0.2	0.6	1.9	1.2	−0.7	0.6
3rd "	0.6	3.8	1.1	−0.1	−0.7	−0.4	1.8	..
4th "	1.2	−1.4	0.7	0.4	3.5	1.8	−1.4	6.8
1984 — 1st qtr.	0.8	9.2	2.2	−0.4	−0.5	−0.4	3.0	1.8
2nd "	−0.3	−7.5	−1.7	−0.9	4.6	1.6	0.1	−9.2
3rd "	1.5	8.7	2.7	1.3	3.6	2.4	−0.7	14.3
4th "	0.2	6.7	1.4	−1.7	6.9	2.4	1.2	1.4
1985 — 1st qtr.	0.2	1.7	0.5	−2.9	3.8	0.5	0.8	−0.6
2nd "	1.3	−1.0	0.9	1.5	4.6	3.1	1.6	−2.7
				Implicit price deflators				
1979	15.9	17.5	16.5	10.1	13.5	16.0	16.8	15.8
1980	20.6	22.0	21.1	32.5	17.2	20.3	22.0	18.0
1981	18.3	27.8	20.0	22.7	17.3	20.3	19.7	21.1
1982	17.8	11.3	16.5	18.0	13.5	16.4	16.9	15.3
1983	15.0	5.1	12.9	14.2	8.8	12.4	14.7	7.8
1984	10.7	10.7	10.9	9.6	9.9	8.9	11.7	10.0
1983 — 2nd qtr.	3.8	..	3.0	2.7	3.4	2.9	3.1	2.7
3rd "	3.2	3.0	3.2	4.3	1.8	3.4	3.2	3.2
4th "	2.3	3.5	2.5	2.0	1.4	1.6	2.6	3.7
1984 — 1st qtr.	3.2	2.9	3.3	2.2	3.3	2.6	3.6	2.7
2nd "	2.7	2.4	2.5	2.1	4.6	2.7	2.7	0.3
3rd "	1.0	1.5	1.3	1.4	..	0.6	1.5	2.2
4th "	1.6	2.7	2.0	2.2	..	0.6	2.1	2.3
1985 — 1st qtr.	2.4	4.4	2.9	2.1	1.5	1.3	2.9	3.7
2nd "	3.6	2.1	3.2	2.3	2.9	2.3	3.4	2.7

Source: Istat, quaterly data, seasonally adjusted.

Industrial production and business opinion indicators

(seasonally adjusted data (1))

	INDUSTRIAL PRODUCTION				ISCO BUSINESS OPINION INDICATORS				
					Orders			Expected demand in 3-4 months	Stocks of finished goods vis-à-vis normal (2)
	General index	Consumer goods	Investment goods	Intermediate goods	Domestic	Foreign	Total		
	(indices, 1980 = 100)				*(average of the monthly balances of replies)*				
1981	98.4	97.4	103.4	97.4	−46.8	−42.0	−45.8	−12.5	16.6
1982	95.4	97.6	95.8	93.7	−53.6	−49.2	−52.6	−14.4	17.3
1983	92.3	94.2	92.6	90.9	−52.4	−45.9	−51.3	−7.6	13.8
1984	95.2	96.3	93.2	95.2	−27.0	−26.6	−24.6	7.5	8.4
1981 — 1st qtr.	98.9	96.2	105.3	98.5	−47.4	−45.5	−46.7	−15.9	16.7
2nd "	100.1	98.4	107.4	98.7	−48.3	−44.9	−48.6	−10.3	18.7
3rd "	97.4	97.3	101.7	96.0	−45.3	−39.0	−41.3	−12.7	17.3
4th "	97.3	97.8	99.1	96.4	−46.3	−38.6	−46.3	−11.1	13.7
1982 — 1st qtr.	98.7	98.8	101.4	97.6	−49.0	−43.2	−47.4	−8.9	15.7
2nd "	95.8	97.4	97.1	94.3	−50.3	−47.6	−51.0	−12.0	18.0
3rd "	94.6	97.1	93.9	93.2	−54.3	−52.6	−53.3	−15.0	19.7
4th "	92.5	97.3	90.8	89.8	−60.7	−53.3	−58.7	−21.8	16.0
1983 — 1st qtr.	91.8	96.0	91.4	89.2	−59.0	−52.8	−59.0	−18.6	15.7
2nd "	91.2	93.7	90.8	89.6	−56.7	−47.3	−56.0	−11.3	19.0
3rd "	92.2	93.2	93.0	91.2	−50.7	−46.0	−48.0	−2.7	13.7
4th "	94.1	94.0	95.4	93.8	−43.3	−37.6	−42.0	2.2	7.0
1984 — 1st qtr.	93.3	93.3	91.5	93.9	−33.7	−30.2	−31.4	6.1	10.7
2nd "	95.6	97.4	91.4	95.8	−27.7	−23.3	−25.6	7.4	6.7
3rd "	96.4	97.4	94.5	96.4	−25.0	−23.3	−23.3	7.3	9.0
4th "	95.6	97.1	95.5	94.6	−21.7	−29.6	−18.0	9.2	7.3
1985 — 1st qtr.	96.0	97.1	97.4	94.8	−21.7	−29.2	−21.4	5.8	7.7
2nd "	97.7	98.7	100.6	96.0	−22.7	−30.9	−22.3	6.4	8.0

Source: Based on Istat and Isco data.
(1) Industrial production data are also adjusted for trading-day variations. — (2) Raw data.

Labour statistics

(seasonally adjusted data in thousands)

	INDUSTRY (excl. construction)			THE ECONOMY (1)						
	Employment			Employment						
	Total	Employees	Employees excluding those on wage supplementation	Agriculture	Industry	Services	Total	Unemployment	Labour force	Unemployment rate %
1979	5,812	5,071	4,947	2,977	7,600	9,669	20,246	1,696	21,942	7.7
1980	5,847	5,085	4,938	2,895	7,708	9,928	20,531	1,687	22,218	7.6
1981	5,762	4,995	4,697	2,690	7,630	10,202	20,521	1,944	22,465	8.7
1982	5,655	4,887	4,547	2,516	7,516	10,470	20,502	2,069	22,571	9.2
1983	5,496	4,737	4,327	2,525	7,321	10,727	20,573	2,301	22,874	10.1
1984	5,306	4,553	4,118	2,397	7,016	11,236	20,650	2,386	23,036	10.4
1981 — 1st qtr.	5,832	5,049	4,784	2,835	7,710	10,054	20,600	1,794	22,394	8.0
2nd "	5,779	5,002	4,717	2,723	7,643	10,123	20,489	1,913	22,402	8.5
3rd "	5,717	4,965	4,665	2,627	7,584	10,275	20,485	2,003	22,488	8.9
4th "	5,721	4,965	4,623	2,575	7,583	10,354	20,512	2,065	22,577	9.1
1982 — 1st qtr.	5,711	4,945	4,639	2,534	7,597	10,426	20,558	2,033	22,591	9.0
2nd "	5,676	4,912	4,584	2,535	7,535	10,455	20,525	2,035	22,560	9.0
3rd "	5,634	4,863	4,511	2,509	7,477	10,460	20,446	2,075	22,522	9.2
4th "	5,600	4,828	4,454	2,485	7,456	10,538	20,479	2,134	22,613	9.2
1983 — 1st qtr.	5,558	4,801	4,396	2,490	7,402	10,650	20,542	2,244	22,786	9.8
2nd "	5,509	4,755	4,323	2,515	7,341	10,715	20,571	2,262	22,833	9.9
3rd "	5,477	4,722	4,321	2,559	7,304	10,709	20,572	2,285	22,857	10.0
4th "	5,440	4,671	4,268	2,536	7,236	10,834	20,607	2,414	23,022	10.5
1984 — 1st qtr.	5,373	4,601	4,186	2,464	7,122	10,986	20,572	2,438	23,010	10.6
2nd "	5,312	4,554	4,134	2,406	7,037	11,154	20,598	2,359	22,956	10.3
3rd "	5,282	4,532	4,068	2,388	6,963	11,372	20,723	2,344	23,067	10.2
4th "	5,258	4,526	4,082	2,330	6,942	11,434	20,706	2,404	23,111	10.4
1985 — 1st qtr.	5,233	4,532	4,085	2,284	6,939	11,461	20,684	2,414	23,098	10.5

Source: Based on Istat data. For industry excluding construction, national accounts data were used.

(1) The annual data are the averages of the raw quarterly data and therefore do not necessarily coincide with the annual averages of the seasonally adjusted data.

Table a14

Productivity and labour costs in industry excluding construction

(% changes on corresponding period)

	Productivity			Gross wages and salaries per employee		Labour costs	
		Per worker					
	Hourly	Including employees on wage supplementation	Excluding employees on wage supplementation	Including employees on wage supplementation	Excluding employees on wage supplementation	Per employee including employees on wage supplementation	Per unit of output
1979	6.9	5.8	5.4	17.4	16.8	16.5	10.1
1980	4.0	4.1	4.5	20.5	21.1	19.1	14.4
1981	2.9	0.6	3.4	21.3	25.3	20.2	19.5
1982	1.7	−0.3	0.6	15.8	17.0	17.8	18.2
1983	1.7	0.3	1.9	13.0	15.1	15.3	14.9
1984	4.5	7.0	7.9	10.9	12.1	12.5	5.1
1981 — 1st qtr.	1.0	−4.7	−1.7	16.7	21.0	14.8	20.5
2nd "	3.1	1.1	4.1	22.2	26.5	19.7	18.4
3rd "	3.4	3.2	5.8	23.1	26.8	23.4	19.6
4th "	4.1	3.1	5.6	23.1	26.6	22.7	19.1
1982 — 1st qtr.	2.7	2.7	3.6	20.3	21.4	19.4	16.2
2nd "	1.7	−0.6	0.3	14.3	15.5	14.4	15.1
3rd "	2.2	−0.8	0.2	15.1	16.6	18.9	19.9
4th "	0.3	−2.5	−1.7	14.0	15.1	18.6	21.6
1983 — 1st qtr.	2.0	−1.8	0.3	12.9	15.7	17.0	19.1
2nd "	0.8	−2.0	0.2	13.7	16.7	17.4	19.8
3rd "	1.2	1.5	2.7	14.1	15.7	14.7	13.0
4th "	2.7	3.7	4.5	11.5	12.6	12.5	8.5
1984 — 1st qtr.	3.1	7.3	7.8	15.0	15.7	17.0	9.1
2nd "	5.8	7.8	7.8	11.6	11.7	13.5	5.3
3rd "	4.8	6.3	8.0	8.0	10.1	9.5	3.0
4th "	4.5	6.8	8.0	9.6	11.1	10.3	3.3
1985 — 1st qtr.	4.4	3.5	4.5	9.5	10.5	9.7	6.0

Source: Based on Istat data.

Table a15

Costs, profits and prices in industry excluding construction (1)

(% changes on corresponding period)

	Total labour income	Gross profits	Value added at factor cost	Input value	Production value	Mark-up (% ratio to costs)	Output prices	Input prices
1979	17.1	36.0	23.3	27.0	25.0	23.4	17.2	18.6
1980	19.4	32.4	24.1	33.3	28.5	24.3	21.9	26.3
1981	18.1	2.2	11.9	25.6	18.7	20.2	20.5	28.1
1982	15.3	16.9	15,8	8,2	11.8	21.4	15.4	12.5
1983	11.8	5.8	9.6	3.9	6.7	21.1	10.2	7.9
1984	8.1	23.7	13.5	14.8	14.1	23.3	10.7	11.6
1981 — 1st qtr..	14.2	−14.6	2.5	22.5	12.2	18.9	17.5	28.1
2nd " .	17.3	8.1	13.8	24.3	19.0	20.9	20.4	26.3
3rd " .	20.2	−1.2	12.1	30.5	21.2	18.5	21.7	32.0
4th " .	20.3	16.9	19.0	24.9	21.9	22.5	22.2	26.2
1982 — 1st qtr..	16.9	34.3	22.8	15.6	19.0	21.9	19.7	17.4
2nd " .	12.4	20.0	15.1	7.9	11.3	22.9	15.0	12.3
3rd " .	16.4	19.4	17.4	4.3	10.4	20.3	14.0	8.5
4th " .	15.4	−0.8	9.3	5.7	7.5	20.5	13.4	12.2
1983 — 1st qtr..	13.5	—	8.5	1.9	5.1	20.6	10.8	8.0
2nd " .	13.7	−1.5	8.0	0.7	4.3	21.3	10.4	7.1
3rd " .	11.4	9.8	10.9	4.3	7.6	20.8	9.9	7.2
4th " .	8.9	15.2	11.0	8.4	9.7	21.7	9.8	9.1
1984 — 1st qtr..	12.1	25.8	16.8	13.5	15.1	22.9	11.7	10.7
2nd " .	8.7	26.9	14.9	17.2	16.0	23.8	12.0	13.6
3rd " .	5.1	22.1	10.9	15.3	13.0	22.9	10.2	12.5
4th " .	6.9	20.3	11.6	13.6	12.6	23.5	8.9	9.8
1985 — 1st qtr..	8.0	2.5	6.0	12.7	9.3	21.2	9.4	12.0

Source: Based on Istat data.

(1) Value added at factor cost is the sum of total labour income and gross profits. Production value is the sum of the value of inputs and value added. The mark-up (net of intersectoral transactions) is given by the ratio of production value to total costs (total labour income plus input value).

Wholesale and consumer prices

(% changes on corresponding period)

	Wholesale prices				Consumer prices				Cost of living	*Scala mobile* index
	Consumer goods	Investment goods	Intermediate goods	Total	Food	Non-food products	Services	Total		
1979	11.7	12.4	19.4	15.4	13.3	15.0	16.6	14.7	15.8	15.3
1980	17.1	18.3	22.8	20.0	15.6	28.1	20.6	21.2	21.1	18.2
1981	14.9	19.4	17.5	16.6	16.3	17.1	20.6	17.8	18.7	18.4
1982	14.8	14.8	12.9	13.9	16.4	15.8	17.5	16.5	16.3	16.0
1983	11.3	13.1	8.0	9.7	12.3	14.1	18.2	14.7	15.0	13.9
1984	9.7	9.8	10.9	10.4	9.1	10.4	13.3	10.8	10.6	11.1
1983 — 1st qtr.	13.2	13.5	8.2	10.6	14.2	16.2	18.3	16.2	16.5	16.3
2nd "	12.5	13.1	7.8	10.1	13.9	15.9	18.5	16.0	16.3	14.9
3rd "	10.5	13.1	7.5	9.2	11.2	13.4	18.0	13.9	14.3	12.5
4th "	9.3	12.5	8.4	9.1	10.1	11.3	18.1	12.8	13.0	12.3
1984 — 1st qtr.	10.3	11.7	11.1	10.8	10.1	11.6	15.0	12.1	12.2	12.4
2nd "	10.9	10.4	12.3	11.5	10.1	10.8	13.6	11.4	11.3	12.0
3rd "	9.7	9.2	11.1	10.4	8.5	9.9	13.4	10.5	10.2	11.3
4th "	8.3	8.3	9.3	8.8	7.7	9.4	11.2	9.4	8.8	8.8
1985 — 1st qtr.	8.1	8.1	8.6	8.4	8.2	8.5	11.6	9.3	8.6	8.6
2nd "	9.0	8.0	7.8	8.3	8.5	9.0	10.9	9.4	8.8	8.7
1984 — Sept.	9.0	9.2	10.2	9.6	8.3	9.4	13.1	10.1	9.8	10.5
Oct.	8.6	8.5	10.3	9.4	7.9	9.7	11.2	9.5	9.1	9.2
Nov.	8.3	8.2	9.5	8.9	7.3	9.3	11.0	9.2	8.6	8.7
Dec.	8.2	8.0	8.3	8.2	7.8	9.3	11.4	9.4	8.8	8.6
1985 — Jan.	8.1	8.4	8.2	8.2	8.1	8.5	11.6	9.3	8.6	8.5
Feb.	7.8	8.5	8.0	8.0	8.2	8.2	11.8	9.3	8.6	8.6
Mar.	8.4	7.7	9.5	8.9	8.2	8.7	11.6	9.4	8.6	8.8
Apr.	8.8	8.4	8.6	8.7	8.3	8.9	11.2	9.4	8.8	9.0
May	9.0	7.9	7.8	8.3	8.5	9.0	11.0	9.5	8.8	8.9
June	9.3	7.9	6.9	8.0	8.8	9.2	10.5	9.4	8.7	8.3
July	8.8	8.1	6.5	7.5	8.9	9.0	10.5	9.4	8.7	8.2
Aug.	8.3	8.0	5.5	6.9	8.9	8.8	9.7	9.1	8.6	8.2
Sept.									8.3	

Source: Istat.

Table a17

Indices of competitiveness

(calculated on manufacturing wholesale prices, 1980 = 100)

	Italy's competitive position with respect to:							
	Germany	France	UK	Belgium	Netherlands	US	EEC countries (1)	13 industrial countries (2)
1979	92.6	94.1	107.4	90.6	93.7	99.8	94.5	94.8
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	101.6	100.4	91.3	103.1	99.5	78.6	100.0	96.4
1982	98.7	103.5	92.6	112.3	94.9	72.3	100.1	95.8
1983	100.9	106.7	99.9	120.1	98.1	70.6	103.7	98.3
1984	103.8	102.5	101.6	124.6	100.4	65.6	104.4	97.9
1983 — 1st qtr.	100.8	107.2	105.9	118.2	97.1	74.4	104.2	99.5
2nd "	100.6	108.6	99.4	119.5	98.6	72.3	104.1	98.9
3rd "	101.2	106.4	96.9	120.8	97.9	68.3	103.5	97.7
4th "	101.0	104.6	97.5	122.0	98.7	67.5	103.0	97.0
1984 — 1st qtr.	101.5	103.3	98.6	123.2	98.1	67.3	103.0	96.9
2nd "	103.0	102.4	100.8	124.3	99.5	68.0	103.9	97.8
3rd "	104.8	102.2	102.3	124.9	101.2	64.4	104.9	98.2
4th "	105.8	102.2	104.7	125.8	102.9	62.6	105.8	98.5
1985 — 1st qtr.	107.1	102.6	107.9	126.6	104.7	60.2	107.1	99.3
2nd "	105.9	100.6	98.1	125.1	102.2	62.6	104.5	97.9
1984 — Aug.	104.6	102.3	101.9	124.7	100.8	64.9	104.8	98.2
Sept.	105.2	101.7	102.0	124.6	101.8	62.7	104.9	97.9
Oct.	105.3	101.9	103.7	125.7	102.3	61.9	105.4	98.0
Nov.	105.5	102.1	104.4	125.4	102.7	63.6	105.6	98.5
Dec.	106.6	102.7	106.1	126.2	103.8	62.2	106.6	99.0
1985 — Jan.	107.7	103.4	110.3	127.1	105.3	61.9	107.9	100.3
Feb.	107.7	103.1	109.2	127.4	105.5	60.0	107.7	99.8
Mar.	106.0	101.4	104.1	125.4	103.4	58.8	105.6	97.8
Apr.	104.9	100.2	98.8	124.0	102.1	62.3	104.0	97.3
May (*)	106.0	100.4	98.1	125.6	102.4	62.1	104.6	97.9
June (*)	106.6	101.2	97.5	126.4	102.1	63.5	105.0	98.5
July (*)	104.1	99.3	92.6	123.8	99.7	65.1	102.4	96.7
Aug. (*)	102.2	98.2	94.4	123.0	97.5	67.0	101.2	96.0

(1) Germany, France, the UK, Belgium, the Netherlands, Ireland and Denmark. — (2) The seven EEC countries plus the US, Canada, Japan, Switzerland, Sweden and Austria. — (*) Provisional and partly estimated data.

Table a18

Balance of payments on a settlements basis

(billions of lire)

	Goods (1)	Services and transfers				Balance on current account	Non-bank capital movements plus errors and omissions	Bank capital movements (*) (2)	Change in official reserves (2)
		Travel	Income from capital	Other	Total				
1979	−7,225	5,564	−672	3,267	8,159	934	890	1,055	−2,879
1980	−18,351	5,399	−973	3,780	8,206	−10,145	3,887	6,929	−671
1981	−14,017	6,693	−4,151	3,800	6,342	−7,675	9,208	−1,524	−9
1982	−17,189	8,928	−5,815	4,028	7,141	−10,048	7,527	−3,062	5,583
1983	−9,176	10,953	−6,418	5,347	9,882	706	3,087	4,995	−8,788
1984 (3)	−18,352	11,412	−7,554	7,240	11,098	−7,254	7,311	5,138	−5,195
1983 — Sept. ...	−880	1,221	−746	262	737	−143	−56	−877	1,076
Oct. ...	−1,167	846	−564	349	631	−536	−125	469	192
Nov. ...	−459	651	−472	181	360	−99	841	929	−1,671
Dec. ...	−449	691	−622	422	491	42	−359	339	−22
1984 — Jan. ...	−1,121	429	−577	451	303	−818	68	579	171
Feb. ...	−1,926	343	−518	682	507	−1,419	911	−626	1,134
Mar. ...	−1,647	523	−498	210	235	−1,412	−568	833	1,131
Apr. ...	−1,889	837	−659	960	1,138	−751	1,501	451	−1,201
May ...	−1,622	1,131	−431	654	1,354	−268	−1,301	2,739	−1,170
June ...	−1,667	1,371	−832	161	700	−967	782	790	−605
July ...	−1,387	1,633	−524	927	2,036	649	1,215	−78	−1,786
Aug. ...	−35	1,322	−606	676	1,392	1,357	325	−655	−1,027
Sept. ...	−1,824	1,259	−793	745	1,211	−613	176	198	239
Oct. ...	−1,424	1,167	−864	696	999	−425	1,683	−626	−632
Nov. ...	−1,433	747	−536	632	843	−590	3,228	294	−2,932
Dec. ...	−2,372	652	−716	425	361	−2,011	−711	1,239	1,483
1985 — Jan. ...	−1,369	476	−863	1,261	874	−495	655	498	−658
Feb. ...	−2,411	489	−559	715	645	−1,766	171	173	1,422
Mar. ...	−3,257	740	−518	611	833	−2,424	−513	−905	3,842
Apr. ...	−2,256	868			52	−2,204	−2,294	4,406	92
May ...	−1,126	1,193			1,247	121	613	642	−1,376
June ...								301	1,747
July ...								−1,987	209
Aug. ...								1,928	−504
Sept. ...								−1,027	2,435

(1) Imports, cif; exports, fob. — (2) Adjusted for exchange rate variations; a minus sign indicates an increase in net assets. — (3) Annual totals do not coincide with the sum of the monthly totals because of the provisional nature of the data. — (*) The July 1984 figures take account of the arrangements regarding the foreign assets held by the old Banco Ambrosiano.

Table a19

External position of BI-UIC

	Short-term position							Medium and long-term position	Total official reserves (1)
	Assets					Liabilities	Balance (1)		
	Gold	Convertible currencies	ECU	SDR	Reserve position in the IMF				
	(billions of lire)								
1979 — Dec. ...	16,141	7,931	5,974	476	250	−132	30,640	−100	30,540
1980 — Dec. ...	34,169	10,152	9,982	618	766	−272	55,415	−381	55,034
1981 — Dec. ...	34,791	11,657	10,684	940	881	−183	58,770	−759	58,011
1982 — Dec. ...	32,449	9,137	8,140	1,107	953	−144	51,642	−475	51,167
1983 — Dec. ...	43,399	17,587	13,153	1,094	1,642	−355	76,520	−483	76,037
1984 — Sept. ..	42,185	21,424	13,095	1,398	1,908	−126	79,884	−84	79,800
Oct. ...	42,185	21,979	13,281	1,290	1,900	−95	80,540	−61	80,479
Nov. ..	42,185	24,950	13,257	1,316	2,047	−206	83,549	−19	83,530
Dec. ...	41,887	23,753	13,159	1,346	2,079	−207	82,017	−172	81,845
1985 — Jan. ...	41,887	24,302	12,980	1,417	2,126	−210	82,502	−192	82,310
Feb. ...	41,887	23,509	13,125	1,608	2,174	−106	82,197	−166	82,031
Mar. ...	39,722	19,558	13,568	1,589	2,149	−94	76,492	−156	76,336
Apr. ...	39,722	20,402	12,963	1,593	2,154	−171	76,663	−138	76,525
May ...	39,722	21,742	12,979	1,641	2,148	−182	78,050	−200	77,850
June ...	42,666	23,490	12,971	1,658	2,126	−122	82,789	−384	82,405
July ...	42,666	23,214	13,339	1,662	2,040	−154	82,767	−430	82,337
Aug. ...	42,666	22,549	13,301	1,717	2,061	−110	82,184	−426	81,758
Sept. ..	41,090	19,963	13,260	1,719	2,059	−131	77,960	−450	77,510
	(millions of dollars)								
1979 — Dec. ...	20,125	9,864	7,430	592	312	−164	38,159	−124	38,035
1980 — Dec. ...	36,722	10,910	10,728	664	823	−292	59,555	−409	59,146
1981 — Dec. ...	28,993	9,714	8,903	783	734	−152	48,975	−632	48,343
1982 — Dec. ...	23,685	6,669	5,942	808	696	−105	37,695	−347	37,348
1983 — Dec. ...	26,152	10,598	7,926	659	989	−214	46,110	−291	45,819
1984 — Sept. ..	22,400	11,376	6,953	742	1,013	−67	42,417	−44	42,373
Oct. ...	22,400	11,686	7,061	686	1,010	−51	42,792	−33	42,760
Nov. ..	22,400	13,058	6,938	689	1,071	−108	44,048	−10	44,038
Dec. ...	21,637	12,270	6,797	695	1,074	−107	42,367	−89	42,278
1985 — Jan. ...	21,637	12,435	6,642	725	1,088	−107	42,420	−98	42,322
Feb. ...	21,637	11,361	6,343	777	1,051	−51	41,117	−80	41,036
Mar. ...	20,069	9,882	6,855	803	1,086	−47	38,647	−79	38,568
Apr. ...	20,069	10,330	6,564	807	1,091	−87	38,773	−70	38,703
May ...	20,069	11,031	6,585	833	1,090	−92	39,515	−101	39,413
June ...	21,881	12,046	6,652	850	1,090	−63	42,457	−197	42,260
July ...	21,881	12,406	7,128	888	1,090	−82	43,311	−230	43,081
Aug. ...	21,881	12,078	7,125	920	1,104	−59	43,049	−228	42,821
Sept. ..	22,770	11,062	7,348	953	1,141	−73	43,200	−249	42,951

(1) The dollar values do not coincide with the sum of the single components because of rounding.

State sector borrowing requirement (1)

(billions of lire)

	Budget revenues			Budget disbursements			Deficit (−)	Other transactions (2)	BORROWING REQUIREMENT (−)	Borrowing requirement net of debt payments in securities (3)
	Fiscal	Other	Total	Current expenditure	Capital expenditure	Total				
1979	52,806	11,253	64,059	−79,146	−15,204	−94,350	−30,291	−80	−30,371	−30,313
1980	72,015	18,303	90,318	−110,697	−20,517	−131,214	−40,896	3,879	−37,017	−36,078
1981	89,240	19,448	108,688	−131,662	−22,394	−154,056	−45,368	−7,928	−53,296	−49,616
1982	114,668	40,515	155,183	−176,469	−35,439	−211,908	−56,725	−15,928	−72,653	−71,941
1983	144,603	36,700	181,303	−203,258	−50,868	−254,126	−72,823	−15,781	−88,604	−88,604
1984	162,688	41,452	204,140	−248,299	−48,762	−297,061	−92,921	−2,430	−95,351	−95,351
1983 — 3rd qtr.	30,543	7,482	38,025	−51,084	−19,808	−70,892	−32,867	4,288	−28,579	−28,579
4th "	47,008	18,490	65,498	−66,557	−15,742	−82,299	−16,801	−8,653	−25,454	−25,454
1984 — 1st qtr.	35,532	4,947	40,479	−49,794	−7,068	−56,862	−16,383	−2,042	−18,425	−18,425
2nd "	39,611	5,867	45,478	−54,026	−13,468	−67,494	−22,016	2,155	−19,861	−19,861
3rd "	34,211	12,917	47,128	−67,542	−8,696	−76,238	−29,110	3,727	−25,383	−25,383
4th "	53,334	17,721	71,055	−76,937	−19,530	−96,467	−25,412	−6,270	−31,682	−31,682
1985 — 1st qtr.	35,336	7,394	42,730	−59,540	−11,998	−71,538	−28,808	952	−27,856	−27,856
2nd "	43,759	7,040	50,799	−73,519	−8,917	−82,436	−31,636	3,792	−27,844	−25,649
3rd (4)	42,015	7,590	49,605	−71,630	−13,707	−85,336	−35,730	3,290	−32,440	−29,502
1984 — Aug.	10,995	8,272	19,267	−24,340	−2,212	−26,552	−7,285	121	−7,164	−7,164
Sept.	9,111	2,120	11,231	−20,331	−1,985	−22,316	−11,085	915	−10,170	−10,170
Oct.	12,459	4,695	17,154	−17,545	−7,014	−24,559	−7,405	−1,923	−9,328	−9,328
Nov.	14,869	3,175	18,044	−25,084	−3,233	−28,317	−10,273	−1,307	−11,580	−11,580
Dec.	26,006	9,851	35,857	−34,308	−9,283	−43,591	−7,734	−3,040	−10,774	−10,774
1985 — Jan.	11,890	794	12,684	−14,102	−2,447	−16,549	−3,865	−1,369	−5,233	−5,233
Feb.	12,095	3,007	15,102	−26,844	−3,965	−30,809	−15,707	6,507	−9,200	−9,200
Mar.	11,351	3,593	14,944	−18,595	−5,585	−24,180	−9,236	−4,187	−13,423	−13,423
Apr.	11,761	2,090	13,851	−16,575	−2,381	−18,956	−5,105	−4,936	−10,041	−10,041
May	13,148	2,348	15,496	−25,744	−3,300	−29,044	−13,547	3,973	−9,574	−9,574
June	18,850	2,602	21,452	−31,201	−3,235	−34,436	−12,984	4,755	−8,229	−6,034
July (4)	17,422	2,827	20,249	−28,071	−6,076	−34,147	−13,898	3,339	−10,559	−10,559
Aug. (4)	14,036	1,392	15,428	−22,405	−5,755	−28,159	−12,731	5,301	−7,431	−7,431
Sept. (4)	10,557	3,372	13,929	−21,155	−1,876	−23,031	−9,102	−5,349	−14,450	−11,512

(1) Rounding may cause discrepancies in totals. — (2) Minor Treasury operations and those of the Deposits and Loans Fund, the autonomous government agencies and the Southern Italy Development Fund. — (3) The payments in securities in 1985 do not include those regarding the extinction of tax credits in respect of banks and special credit institutions (amounting to 4,846 billion lire on the basis of the Ministerial Decree of 27.6.1985) and not yet recorded in the budget. These payments are included, instead, in Table a22 on the public debt, which is also based on the statistical returns of banks. — (4) Provisional data.

Table a21

Financing of the state sector borrowing requirement (1)

(billions of lire)

	Medium and long-term securities		Treasury bills	BI-UIC financing other than securities purchases		PO funds	Foreign loans	Other	BORROWING REQUIREMENT	of which: creation of monetary base (3)
	Total (2)	of which: floating rate Treasury credit certificates		Total	of which: Treasury current account					
1979	9,482	10,219	9,822	3,444	3,476	6,748	581	294	30,371	760
1980	−1,553	2,691	25,500	10,236	8,944	2,195	787	−148	37,017	9,740
1981	7,354	2,816	33,783	6,734	6,186	2,591	2,515	319	53,296	14,233
1982	23,473	27,378	32,604	8,883	6,598	3,586	2,570	1,537	72,653	12,676
1983	69,275	66,652	11,071	−1,125	−8,622	4,937	1,259	3,188	88,604	4,514
1984	62,741	56,738	9,300	13,288	18,555	6,057	2,271	1,693	93,351	10,028
1983 — 3rd qtr.	22,130	23,084	7,181	−1,472	−1,683	249	159	332	28,579	−457
4th "	20,992	17,534	−435	−1,295	−856	4,269	630	1,294	25,454	4,894
1984 — 1st qtr.	19,580	16,913	−5,370	2,093	10,472	1,525	533	64	18,425	5,103
2nd "	16,846	15,939	6,597	−4,282	−4,664	47	−7	660	19,861	−3,850
3rd "	12,973	12,443	8,122	2,794	2,746	439	1,327	−272	25,383	1,138
4th "	13,343	11,443	−49	12,683	10,000	4,046	418	1,242	31,682	7,639
1985 — 1st qtr.	23,268	19,444	−2,166	5,948	8,201	1,486	−689	7	27,856	10,137
2nd "	18,767	15,651	10,182	−2,172	−1,757	246	1,442	−620	27,844	−405
3rd (4)	21,222	20,744	10,353	−556	678	−25	657	789	32,440	3,495
1984 — Aug.	2,603	3,484	4,250	393	−863	377	−69	−389	7,164	1,105
Sept.	4,869	4,979	4,029	174	765	−307	1,242	163	10,170	−945
Oct.	3,583	3,477	1,835	2,590	2,412	129	4	1,187	9,328	442
Nov.	4,900	3,982	−698	5,691	4,093	76	1,783	−172	11,580	3,762
Dec.	4,860	3,984	−1,185	4,402	3,496	3,841	−1,370	226	10,774	3,435
1985 — Jan.	2,641	3,481	−1,695	2,265	2,449	2,274	−724	472	5,233	6,565
Feb.	10,550	7,721	−537	−113	942	−591	−44	−65	9,200	−790
Mar.	10,078	8,242	67	3,796	4,810	−197	79	−400	13,423	4,362
Apr.	7,659	5,626	2,978	−2,265	−2,262	−58	880	847	10,041	−1,683
May	5,457	6,150	3,044	1,249	1,739	84	547	−807	9,574	2,659
June	5,651	3,875	4,160	−1,156	−1,234	220	14	−660	8,229	−1,381
July (4)	4,132	6,289	3,186	1,553	1,136	290	586	812	10,559	3,039
Aug. (4)	4,850	4,914	4,462	−2,160	1,726	285	29	−35	7,431	−142
Sept. (4)	12,240	9,541	2,705	51	1,268	−600	42	12	14,450	598

(1) Rounding may cause discrepancies in totals. — (2) See footnote 3 to Table a20. — (3) The series has been adjusted for Bank of Italy sales of securities to banks in connection with advances granted under the Ministerial Decree of 27 September 1974. — (4) Provisional data.

Table a22

The domestic public debt (1)

(face value; billions of lire)

	Medium and long-term securities excluding BI portfolio	Treasury bills excluding BI portfolio	PO funds	Lending by credit institutions	Other domestic debt	Sub-total	Borrowing from BI-UIC	TOTAL	of which: state sector
1978 — Dec. ..	39,590	33,979	24,105	14,102	1,404	113,180	43,153	156,333	142,793
1979 — Dec. ..	52,143	43,905	30,853	16,195	1,563	144,660	43,255	187,915	172,673
1980 — Dec. ..	49,682	70,123	33,048	16,716	1,700	171,269	52,978	224,246	208,522
1981 — Mar. ..	50,645	73,454	33,618	17,209	1,690	176,615	59,495	236,110	220,495
June ..	52,522	78,023	33,203	17,592	1,711	183,052	61,843	244,894	229,478
Sept. ..	53,094	87,938	33,255	17,740	1,754	193,780	64,280	258,061	241,657
Dec. ..	56,057	98,750	35,639	16,996	1,779	209,220	66,556	275,776	259,753
1982 — Mar. ..	59,895	106,515	35,583	17,099	1,803	220,895	68,666	289,561	273,429
June ..	58,999	121,099	35,227	17,503	1,845	234,673	69,631	304,304	288,065
Sept. ..	70,762	132,886	35,010	18,579	1,902	259,139	69,055	328,194	311,746
Dec. ..	81,308	127,587	39,225	22,140	1,938	272,198	78,670	350,868	330,968
1983 — Mar. ..	91,862	123,508	39,737	22,099	1,979	279,186	85,051	364,236	344,660
June ..	111,153	133,592	39,644	23,475	2,020	309,884	75,961	385,845	366,123
Sept. ..	134,401	139,681	39,893	23,933	2,084	339,992	74,647	414,639	394,734
Dec. ..	150,671	137,992	44,162	28,225	2,147	363,198	79,630	442,827	420,008
1984 — Mar. ..	166,899	135,166	45,687	29,515	2,196	379,462	82,915	462,377	438,306
June ..	183,512	140,531	45,733	31,790	2,246	403,812	80,740	484,552	458,829
Sept. ..	195,193	150,318	46,172	33,235	2,290	427,208	83,208	510,417	482,940
Dec. ..	208,883	153,233	50,219	36,925	2,379	451,639	92,864	544,503	514,554
1985 — Jan. ..	212,722	147,728	52,493	37,550	2,445	452,937	99,311	552,248	520,915
(2) Feb. ..	222,640	148,395	51,902	37,089	2,405	462,430	98,616	561,047	530,151
Mar. ..	232,457	148,548	51,705	36,994	2,450	472,153	102,991	575,144	543,899
Apr. ..	239,433	151,753	51,646	37,595	2,441	482,868	101,337	584,205	553,230
May ..	243,064	156,526	51,731	37,102	2,467	490,889	104,075	594,964	563,645
June ..	254,075	160,951	51,950	36,074	2,475	505,526	102,664	608,190	577,235

(1) Rounding may cause discrepancies in totals — (2) Medium and long-term securities include those used in the extinction of tax credits in respect of banks and special credit institutions, which are reported in the latter's statistical returns even though they have not yet been recorded in the State budget (cf. footnote 3 to Table a20).

Table a23

Monetary base (1)

(amounts outstanding in billions of lire)

	SOURCES						
	Foreign sector	Treasury				Refinancing	Other sectors
		Total	of which: BI-UIC government securities	of which: Treasury current account	*memorandum item: unused credit on Treasury current account*		
1981 — Dec.	14,357	65,082	35,370	25,312	*20*	2,466	−8,416
1982 — Dec.	8,710	76,732	38,059	31,910	*−2,290*	3,103	−4,721
1983 — Dec.	17,550	81,244	43,614	23,288	*13,469*	3,100	−5,465
1984 — Sept.	20,611	83,633	45,294	31,842	*9,828*	2,891	−6,577
Oct.	21,242	84,074	43,142	34,254	*7,705*	5,018	−7,379
Nov.	24,174	87,837	41,215	38,346	*3,790*	2,891	−8,631
Dec.	22,691	91,271	40,245	41,842	*1,282*	2,882	−6,569
1985 — Jan.	23,353	97,834	44,505	44,291	*5,758*	3,859	−7,537
Feb.	21,926	97,046	43,869	45,233	*4,836*	4,314	−7,342
Mar.	18,085	101,407	44,431	50,043	*78*	2,900	−7,399
Apr.	18,042	99,725	45,017	47,781	*2,340*	5,421	−8,588
May	19,354	102,383	46,411	49,520	*1,026*	3,705	−9,502
June	21,103	101,002	46,192	48,286	*2,225*	2,594	−7,861
July	20,865	104,041	47,664	49,423	*1,093*	2,692	−8,906
Aug. (*)	20,327	103,899	49,679	47,691	*2,997*	3,117	−9,328
Sept. (*)	17,879	104,497	50,209	48,957	*1,731*	4,852	−9,327

	USES						
	Non-state sector		Banks				TOTAL MONETARY BASE
	Total	of which: notes and coin	Compulsory reserves	Deposit against overshoots of lending ceiling	Liquidity	Total	
1981 — Dec.	29,755	29,684	37,381	1,448	4,904	43,733	73,488
1982 — Dec.	33,283	33,245	45,926	929	3,687	50,541	83,824
1983 — Dec.	37,363	37,325	55,017	2	4,045	59,065	96,428
1984 — Sept.	36,821	36,792	61,332	—	2,407	63,739	100,560
Oct.	36,019	35,993	62,920	—	4,016	66,936	102,955
Nov.	37,064	37,033	63,648	—	5,558	69,207	106,271
Dec.	41,225	41,195	63,872	—	5,178	69,050	110,275
1985 — Jan.	38,646	38,422	74,806	—	4,056	78,862	117,508
Feb.	38,380	38,247	74,236	—	3,329	77,564	115,944
Mar.	39,570	39,408	72,798	—	2,625	75,424	114,994
Apr.	38,713	38,591	72,731	—	3,155	75,886	114,599
May	39,046	38,953	72,772	—	4,123	76,895	115,940
June	40,960	40,829	71,857	—	4,021	75,879	116,838
July	42,245	42,075	73,267	—	3,180	76,447	118,692
Aug. (*)	41,053	40,796	74,229	—	2,734	76,962	118,015
Sept. (*)	41,292	41,158	74,276	—	2,334	76,610	117,901

(1) Rounding may cause discrepancies in totals. — (*) Provisional data.

Table a23 cont.

Monetary base (1)

(changes in billions of lire)

	Foreign sector	Treasury	Refinancing	Other	TOTAL	Non-state sector	Banks		
							Compulsory reserves	Deposits against ceiling overshoots	Liquidity
1981	25	14,233	119	−5,738	8,639	4,430	2,946	821	442
1982	−5,647	12,676	638	2,670	10,336	3,528	8,544	−519	−1,218
1983	8,840	4,514	−3	−747	12,604	4,081	9,092	−927	359
1984	5,141	10,028	−218	−1,104	13,847	3,861	8,855	−2	1,133
1984 — Sept. ..	−238	−945	−182	1,243	−121	455	204	—	−780
Oct. ...	631	442	2,127	−803	2,396	−801	1,587	—	1,610
Nov. ..	2,932	3,762	−2,126	−1,252	3,316	1,045	729	—	1,542
Dec. ...	−1,483	3,435	−9	2,062	4,004	4,161	224	—	−380
1985 — Jan. ...	662	6,563	976	−968	7,233	−2,579	10,934	—	−1,122
Feb. ...	−1,427	−789	455	196	−1.565	−267	−571	—	−727
Mar. ...	−3,841	4,362	−1,414	−57	−950	1,191	−1,437	—	−703
Apr. ...	−43	−1,683	2,521	−1,190	−395	−857	−67	—	529
May ...	1,312	2,659	−1,716	−913	1,341	332	40	—	968
June ...	1,749	−1,381	−1,111	1,641	899	1,914	−914	—	−102
July ...	−238	3,039	97	−1,045	1,854	1,286	1,409	—	−841
Aug. (*)	−538	−142	425	−422	−677	−1.192	962	—	−446
Sept. (*)	−2,448	598	1,735	1	−114	239	47	—	−400

Monetary base financing of the Treasury

(billions of lire)

	Borrowing requirement	Net sales of securities						Other forms of non-monetary base financing	Monetary base financing
		Primary market			Open market				
		Treasury bills	Treasury credit certificates	Other		of which: repurchase agreements	TOTAL		
1981	53,296	564	−326	−1,684	−32,217	998	−33,663	−5,400	14,233
1982	72,653	−6,947	−20,490	4,018	−28,944	−401	−52,363	−7,614	12,676
1983	88,604	8,632	−59,602	−2,210	−21,609	−1,628	−74,789	−9,301	4,514
1984	95,351	−13,187	−54,436	−2,775	−5,012	2,661	−75,410	−9,913	10,028
1984 — Sept. ..	10,170	−3,691	−2,893	110	−3,556	−3,557	−10,030	−1,085	−945
Oct. ...	9,328	−2,399	−4,779	1,092	−1,484	−284	−7,570	−1,316	442
Nov. ..	11,580	36	−5,107	−609	−449	−90	−6,129	−1,689	3,762
Dec. ...	10,774	1,744	−3,694	−852	−1,843	321	−4,645	−2,694	3,435
1985 — Jan. ...	5,233	3,579	−3,290	659	2,366	3,489	3,314	−1,984	6,563
Feb. ...	9,200	−205	−6,950	−1,514	−1,980	−1,932	−10,648	660	−789
Mar. ...	13,423	715	−6,305	−1,213	−2,779	−2,818	−9,582	522	4,362
Apr. ...	10,041	−3,275	−3,607	−1,943	−1,226	−759	−10,051	−1,673	−1,683
May ...	9,574	−2,764	−5,299	1,117	−153	2,028	−7,099	184	2,659
June ...	8,229	−4,191	−3,441	−1,612	−787	−829	−10,030	420	−1,381
July ...	10,559	−1,004	−4,993	59	92	2,460	−5,846	−1,673	3,039
Aug. (*)	7,431	−1,747	−4,551	—	−996	−950	−7,294	−279	−142
Sept. (*)	14,450	−3,239	−9,157	−2,810	791	791	−14,415	563	598

(1) Rounding may cause discrepancies in totals. — (*) Provisional data.

Table a24

BI-UIC operations in government securities (1)

(billions of lire)

	Primary market		Open market				Variations in BI-UIC portfolio
				of which: repurchase agreements			
	Subscrip-tions	Redemp-tions	Total	Financing of subscriptions	Other purchases	Sales	
			Treasury bills				
1981	35,736	2,704	−28,374	83	—	1,404	(2) 5,972
1982	35,259	9,602	−21,662	426	—	−1,404	3,995
1983	38,342	18,639	−15,946	−179	—	420	3,757
1984	12,597	16,484	−5,947	636	—	780	−9,834
1984 — Sept.	660	322	−2,545	−2,547	—	—	−2,207
Oct.	853	1,418	−1,696	1,851	—	2,350	−2,261
Nov.	1,068	1,730	−445	−1,985	—	−1,600	−1,106
Dec.	720	161	−242	726	—	450	316
1985 — Jan.	1,900	16	2,567	−666	1,030	−1,200	4,451
Feb.	960	1,702	−466	568	−1,030	—	−1,208
Mar.	1,832	1,050	−866	−868	—	—	−84
Apr.	1,800	2,097	69	541	—	—	−228
May	657	376	−2,005	113	—	—	−1,724
June	808	838	−235	−234	—	—	−265
July	3,106	924	458	530	—	—	2,640
Aug.	3,103	387	−940	−950	—	—	1,776
Sept. (*)	500	1,034	791	791	—	—	257
			Treasury credit certificates				
1981	2,499	9	−2,628	—	—	−1,060	−138
1982	10,607	3,719	−4,095	—	—	2,231	2,793
1983	8,515	1,465	−5,229	—	—	1,029	1,821
1984	6,993	4,691	1,128	—	—	−2,805	3,430
1984 — Sept.	2,090	4	−1,011	—	—	1,010	1,074
Oct.	678	1,980	216	—	—	−215	−1,086
Nov.	—	1,124	75	—	—	−295	−1,049
Dec.	326	36	−1,498	—	—	−45	−1,208
1985 — Jan.	191	—	−205	—	1,457	−455	14
Feb.	816	45	−1,482	—	−1,457	—	−711
Mar.	1,959	22	−1,917	—	—	1,950	20
Apr.	1,950	—	173	—	—	−200	2,123
May	773	2	382	—	—	−415	1,153
June	419	22	418	—	—	−405	815
July	1,176	—	887	—	—	−930	2,063
Aug.	300	—	−2	—	—	—	298
Sept. (*)	273	—	—	—	—	—	273

(1) Final figures are given at balance sheet values. The portfolio variations differ from those given by the BI-UIC accounts since they do not take account of the sales of securities made to supply collateral for advances granted under the Ministerial Decree of 27 September 1974. — (2) Includes the purchase of Treasury bills from the Southern Italy Development Fund for 1,314 billion lire. — (*) Provisional data.

BI-UIC operations in government securities (1)

(billions of lire)

	Primary market: Subscriptions	Primary market: Redemptions	Open market: Total	Open market, of which: repurchase agreements: Financing of subscriptions	Open market, of which: repurchase agreements: Other purchases	Open market: Sales	Variations in BI-UIC portfolio (2)
Other government securities							
1981	4,207	1,352	-1,215	—	—	-1,259	1,638
1982	1,690	1,577	-3,188	—	—	—	-3,074
1983	2,481	2,068	-434	—	—	—	-21
1984	5,806	2,578	-193	—	—	—	3,036
1984 — Sept.	—	—	..	—	—	—	..
Oct.	1,274	76	-4	—	—	—	1,194
Nov.	308	—	-79	—	—	—	229
Dec.	25	—	-103	—	—	—	-78
1985 — Jan.	128	310	4	—	13	—	-178
Feb.	1,315	—	-32	—	-13	—	1,283
Mar.	622	—	4	—	—	—	626
Apr.	159	—	-1,468	—	—	1,500	-1,309
May	975	480	1,470	—	—	-1,500	1,965
June	201	—	-970	—	—	1,000	-769
July	61	2,038	-1,253	—	—	-1,000	-3,230
Aug.	—	—	-54	—	—	—	-54
Sept. (*)	—	—	—	—	—	—	—
TOTAL							
1981	42,442	4,065	-32,217	83	—	-915	(*) 7,472
1982	47,556	14,898	-28,944	426	—	827	3,714
1983	49,338	22,172	-21,609	-179	—	1,449	5,557
1984	25,396	23,753	-5,012	636	—	-2,025	-3,368
1984 — Sept.	2,750	326	-3,556	-2,547	—	1,010	-1,132
Oct.	2,805	3,474	-1,484	1,851	—	2,135	-2,153
Nov.	1,376	2,854	-449	-1,985	—	-1,895	-1,926
Dec.	1,071	198	-1,843	726	—	405	-970
1985 — Jan.	2,219	326	2,366	-666	2,500	-1,655	4,259
Feb.	3,091	1,747	-1,980	568	-2,500	—	-636
Mar.	4,413	1,072	-2,779	-868	—	1,950	562
Apr.	3,909	2,097	-1,226	541	—	1,300	586
May	2,405	858	-153	113	—	-1,915	1,394
June	1,428	860	-787	-234	—	595	-219
July	4,343	2,962	92	530	—	-1,930	1,473
Aug.	3,403	387	-996	-950	—	—	2,020
Sept. (*)	773	1,034	791	791	—	—	530

(1) Final figures are given at balance sheet values. The portfolio variations differ from those given by the BI-UIC accounts since they do not take account of the sales of securities made to supply collateral for advances granted under the Ministerial Decree of 27 September 1974. — (2) From 1977 to 1981 this item includes the Treasury Credit Certificate operations under Law 386/1974. — (3) Includes the purchase of Treasury bills from the Southern Italy Development Fund for 1,314 billion lire. — (*) Provisional data.

Table a25

Temporary sales of securities by the Bank of Italy (1)

(billions of lire)

	Amount offered	Amount taken up	Maturity (days)	Yields	
				Maximum	Weighted average
1984					
4 Sept.	1,250	981	10-24	16.00	15.18
5 "	750	620	23	16.00	15.79
12 "	1,000	—	15-16	—	—
17 "	500	405	11	16.00	15.95
19 "	750	750	9	15.85	15.77
20 "	1,000	1,000	8-22	16.00	15.88
21 "	500	370	21	16.00	15.94
28 "	500	490	14-28	16.00	15.99
1 Oct.	1,500	1,500	25	15.20	15.04
9 "	500	425	17	16.00	15.59
10 "	500	500	16-21	15.60	15.45
11 "	750	750	15-20	15.45	15.38
16 "	500	295	20	16.00	15.81
18 "	600	600	18	15.35	15.30
19 "	1,000	1,000	17	15.45	15.23
25 "	750	750	40-42	15.30	15.14
26 "	500	500	38-41	14.90	14.67
21 Dec.	1,200	1,200	25	14.10	14.03
24 "	1,000	455	22	14.75	14.19
27-28 "	500	—	18-19	—	—
1985					
10 Jan.	750	750	15-21	13.10	13.03
11 "	1,000	1,000	14-19	13.00	12.85
20 Feb.	1,000	1,000	8	12.60	12.35
18 Mar.	1,500	1,500	14	12.45	12.26
19 "	750	750	10-13	12.40	12.33
1 Apr.	1,500	765	11	13.20	13.05
2 "	500	310	10	14.00	13.64
4 "	750	750	8	13.90	13.57
9 "	1,000	1,000	17	13.95	13.78
11 "	1,000	1,000	15	13.70	13.51
12 "	1,250	895	14	14.10	13.72
19 "	1,000	1,000	13	12.85	12.76
23 "	1,500	1,500	9-10	12.95	12.67
24 "	750	750	8	13.20	12.79
13 May	750	750	21-23	13.90	13.37
22 "	1,000	955	6-9-10	13.95	13.69
14 June	750	750	14	13.90	13.59
19 "	750	750	9	13.70	13.47
20 "	1,250	1,200	8	14.00	13.77
21 "	1,000	1,000	13	13.30	13.14
25 "	1,000	930	9	14.00	13.73
1 July	1,250	300	25	14.20	14.05
5 "	1,500	1,500	20-21	13.80	13.69
11 "	1,500	1,500	14-15	12.85	12.75
15 "	500	500	10-11	12.85	12.66
9 Aug.	600	600	10	13.30	13.20
12 "	500	400	7	14.00	13.65
13 "	500	500	10	13.90	13.51
10 Sept.	750	750	15	13.60	13.34
11 "	750	750	14	13.60	13.47
12 "	700	520	13-14	13.95	13.79

(1) Repurchase agreements based on competitive bid auctions.

Temporary purchases of securities by the Bank of Italy

(billions of lire)

Financing of purchases at Treasury bill auctions (1)

	Maximum amount	Actual amount	Maturity (days)
1 9 8 4			
14 Aug.	487	318	8
16 ”		70	6
24 ”		1,903	33
27 ”	4,057	483	30
30 ”		907	27
14 Sept.	777	280	4
28 ”	3,535	374	3
12 Oct.	855	664	5
26 ”		15	27
30 ”	3,655	1,479	23
31 ”		732	22
16 Nov.	236	198	6
26 ”	2,450	30	25
30 ”		210	21
28 Dec.	4,034	966	5
1 9 8 5			
11 Jan.	1,446	302	12
25 ”	2,736	365	20
14 Feb.	444	220	5
25 ”	2,885	918	17
14 Mar.	110	52	1
28 ”	3,052	543	1
26 Apr.	3,010	561	7
14 May	860	609	3
23 ”		450	22
24 ”	3,094	272	21
27 ”		243	18
28 June	4,130	420	3
26 July	3,165	980	12
14 Aug.	719	423	7
23 ”	2,437	1,295	7
26 ”		195	4
13 Sept.	841	773	3
27 ”	3,900	1,582	5
11 Oct.	1,268	893	14

Other regulation of liquidity (3)

	Amount offered	Amount taken up	Maturity (days)	Yields: Minimum	Yields: Weighted average
1 9 8 4					
25 Jan.	2,500	2,500	16-21	17.00	17.36
30 ”	3,000	3,000	11	17.55	17.74
31 ”	1,000	1,000	15	18.35	18.40
6 Feb.	4,000	3,309	9-11	16.25	17.66
6 ”	1,000	1,000	9-11	16.80	16.95
10 ”	2,000	2,000	10-20	16.00	16.71
14-15 ”	2,000	2,000	6-16	16.20	16.35
15-16 ”	1,250	1,250	8-15	16.50	16.69
17 ”	2,500	2,500	5-5	15.20	15.65
23 ”	1,000	1,000	7	16.00	16.04
29 ”	1,500	1,500	30-33	16.80	16.95
5 Mar.	5,250	5,250	8-18	16.15	16.44
14 ”	1,250	1,250	7	16.55	16.73
23 ”	2,250	2,250	7-10	15.60	15.73
29 ”	1,300	1,300	1-4	14.50	15.38
5 Apr.	1,250	1,250	11-13	15.00	15.74
7 May	2,000	2,000	2-8	14.60	15.12
5 July	1,250	1,250	13	14.60	15.07
5-6 Dec.	2,000	2,000	8-13	15.75	15.75
5-6 ”	2,000	1,504	11-12	14.50	15.56
1 9 8 5					
30 Jan.	2,500	2,500	26	16.30	16.65
5 June	2,250	2,250	5-13	15.55	15.69
25 July	1,000	1,000	6	14.55	14.69
4 Oct.	3,000	3,000	4-12	15.05	15.51

(1) Finance provided through Treasury bill repurchase agreements at the rate of the corresponding auction to the Treasury bill underwriting syndicate of banks. — (2) Repurchase agreements based on competitive bid auction.

Table a26

Treasury bill auctions

(face value; billions of lire)

	Bills offered	Maturity in days	Demand for bills from banks and the private sector	Bills allotted at auction: to banks and the private sector: Competitive bid	Non-competitive bid	Subscribed by BI-UIC	Total
				3 months			
1985 — mid-Mar. ...	—	—	—	—	—	—	—
end-Mar. ...	2,000	92	2,566	1,997	3	—	2,000
mid-Apr. ...	1,500	91	3,420	1,500	—	—	1,500
end-Apr. ...	5,000	91	3,942	3,941	1	—	3,942
mid-May ...	1,000	92	821	821	—	—	821
end-May ...	3,000	92	2,447	2,444	3	—	2,447
mid-June ...	—	—	—	—	—	—	—
end-June ...	2,750	91	2,983	2,747	3	—	2,750
mid-July ...	750	91	1,091	750	—	—	750
end-July ...	3,000	91	3,891	2,997	3	—	3,000
mid-Aug. ...	1,000	92	1,057	1,000	—	—	1,000
end-Aug. ...	3,250	91	3,105	3,101	4	—	3,105
mid-Sept. ..	1,500	91	1,167	1,167	—	250	1,417
end-Sept. ..	3,500	91	4,063	3,499	1	—	3,500
mid-Oct. ...	1,250	96	997	997	—	253	1,250
				6 months			
1985 — mid-Mar. ...	750	183	516	516	—	234	750
end-Mar. ...	7,500	183	6,770	6,765	5	500	7,270
mid-Apr. ...	1,500	182	1,605	1,500	—	—	1,500
end-Apr. ...	9,500	182	8,450	8,443	7	1,000	9,450
mid-May ...	1,000	184	842	842	—	158	1,000
end-May ...	6,500	183	6,001	5,996	5	499	6,500
mid-June ...	1,000	182	862	862	—	138	1,000
end-June ...	9,500	182	9,575	9,494	6	—	9,500
mid-July ...	3,000	187	3,181	3,000	—	—	3,000
end-July ...	11,000	188	8,907	8,900	7	2,903	11,000
mid-Aug. ...	2,000	184	1,340	1,340	—	660	2,000
end-Aug. ...	9,250	189	7,204	7,200	4	1,750	8,954
mid-Sept. ..	1,500	182	805	805	—	250	1,055
end-Sept. ..	6,500	182	6,824	6,497	3	—	6,500
mid-Oct. ...	750	186	614	614	—	136	750
				12 months			
1985 — mid-Mar. ...	1,250	365	652	—	652	598	1,250
end-Mar. ...	9,000	365	8,310	—	8,310	500	8,810
mid-Apr. ...	1,000	368	700	—	700	300	1,000
end-Apr. ...	7,000	369	6,305	—	6,305	500	6,805
mid-May ...	750	366	741	—	741	—	741
end-May ...	5,500	372	6,056	—	5,500	—	5,500
mid-June ...	1,000	367	681	—	681	319	1,000
end-June ...	7,750	367	7,400	—	7,400	350	7,750
mid-July ...	1,000	368	694	—	694	300	994
end-July ...	8,000	369	7,287	—	7,287	713	8,000
mid-Aug. ...	1,000	365	672	—	672	—	672
end-Aug. ...	7,000	371	6,308	—	6,308	692	7,000
mid-Sept. ..	1,000	367	1,133	—	1,000	—	1,000
end-Sept. ..	6,500	368	7,323	—	6,500	—	6,500
mid-Oct. ...	750	369	993	—	750	—	750

Treasury bill auctions

(prices and yields)

	PRICES		YIELDS (1)					
			Simple			Compound		
	Base	Average tender price	Base	At auction		Base	At auction	
				Competitive bid	Non-competitive bid		Competitive bid	Non-competitive bid
				3 months				
1985 — mid-Mar. ...	—	—	—	—	—	—	—	—
end-Mar. ...	96.85	96.85	12.90	12.90	12.48	13.54	13.54	13.08
mid-Apr. ...	96.65	96.70	13.90	13.69	13.26	14.65	14.41	13.93
end-Apr. ...	96.70	96.70	13.69	13.69	13.26	14.41	14.41	13.93
mid-May ...	96.65	96.65	13.75	13.75	13.33	14.47	14.47	14.01
end-May ...	96.65	96.65	13.75	13.75	13.33	14.47	14.47	14.01
mid-June ...	—	—	—	—	—	—	—	—
end-June ...	96.70	96.70	13.69	13.69	13.26	14.41	14.41	13.93
mid-July ...	96.70	96.70	13.69	13.69	13.26	14.41	14.41	13.93
end-July ...	96.75	96.75	13.47	13.47	13.05	14.17	14.17	13.70
mid-Aug. ...	96.75	96.75	13.33	13.33	12.90	14.01	14.01	13.54
end-Aug. ...	96.80	96.80	13.26	13.26	12.83	13.93	13.93	13.46
mid-Sept. ..	96.80	96.80	13.26	13.26	12.83	13.93	13.93	13.46
end-Sept. ..	96.80	96.80	13.26	13.26	12.83	13.93	13.93	13.46
mid-Oct. ...	96.75	96.75	12.77	12.77	12.37	13.39	13.39	12.94
				6 months				
1985 — mid-Mar. ...	93.90	93.90	12.96	12.96	12.73	13.38	13.38	13.14
end-Mar. ...	93.90	93.90	12.96	12.96	12.73	13.38	13.38	13.14
mid-Apr. ...	93.55	93.55	13.83	13.83	13.60	14.31	14.31	14.06
end-Apr. ...	93.55	93.55	13.83	13.83	13.60	14.31	14.31	14.06
mid-May ...	93.50	93.50	13.79	13.79	13.56	14.26	14.26	14.02
end-May ...	93.55	93.55	13.75	13.75	13.52	14.22	14.22	13.98
mid-June ...	93.60	93.60	13.71	13.71	13.48	14.18	14.18	13.94
end-June ...	93.60	93.60	13.71	13.71	13.48	14.18	14.18	13.94
mid-July ...	93.45	93.45	13.68	13.68	13.46	14.14	14.14	13.90
end-July ...	93.45	93.45	13.61	13.61	13.39	14.06	14.06	13.82
mid-Aug. ...	93.60	93.60	13.56	13.56	13.34	14.02	14.02	13.78
end-Aug. ...	93.45	93.45	13.54	13.54	13.32	13.98	13.98	13.74
mid-Sept. ..	93.75	93.75	13.37	13.37	13.14	13.82	13.82	13.58
end-Sept. ..	93.75	93.75	13.37	13.37	13.14	13.82	13.82	13.58
mid-Oct. ...	93.75	93.75	13.08	13.08	12.86	13.50	13.50	13.26
				12 months				
1985 — mid-Mar. ...	88.20	88.20	13.38	—	13.38	13.38	—	13.38
end-Mar. ...	88.20	88.20	13.38	—	13.38	13.38	—	13.38
mid-Apr. ...	87.65	87.65	13.98	—	13.98	13.98	—	13.98
end-Apr. ...	87.60	87.60	14.00	—	14.00	14.00	—	14.00
mid-May ...	87.70	87.70	13.99	—	13.99	13.99	—	13.99
end-May ...	87.50	87.60	14.02	—	13.89	13.89	—	13.89
mid-June ...	87.70	87.70	13.95	—	13.95	13.95	—	13.95
end-June ...	87.70	87.70	13.95	—	13.95	13.95	—	13.95
mid-July ...	87.70	87.70	13.91	—	13.91	13.91	—	13.91
end-July ...	87.60	87.60	14.00	—	14.00	14.00	—	14.00
mid-Aug. ...	87.70	87.70	14.03	—	14.03	14.03	—	14.03
end-Aug. ...	87.50	87.50	14.05	—	14.05	14.05	—	14.05
mid-Sept. ..	87.75	87.75	13.88	—	13.88	13.88	—	13.88
end-Sept. ..	87.80	87.90	13.78	—	13.65	13.78	—	13.65
mid-Oct. ...	88.00	88.20	13.49	—	13.23	13.49	—	13.23

(1) Calendar year.

Table a27

Interest rates

	Rates on BI-UIC loans		Treasury bill yields (2)				Interbank rates (4)
	Base	Actual on fixed-term advances (1)	3-month	6-month	12-month	Average (3)	
1979 — Dec.	15.00	17.56	16.57	15.67	14.55	12.51	14.57
1980 — Dec.	16.50	—	16.77	17.02	16.14	15.92	17.36
1981 — Dec.	19.00	19.23	22.08	21.36	19.98	19.70	20.67
1982 — Dec.	18.00	21.00	19.51	19.11	18.55	19.17	19.05
1983 — Dec.	17.00	19.81	17.54	16.95	17.48	17.29	18.04
1984 — Sept.	16.50	17.36	15.60	15.51	15.21	15.34	17.20
Oct.	"	16.50	15.27	15.30	15.14	15.23	17.31
Nov.	"	17.47	14.95	14.90	14.89	14.90	17.31
Dec.	"	17.48	14.82	14.69	14.68	14.70	17.31
1985 — Jan.	15.50	15.95	13.93	13.75	13.77	13.77	16.36
Feb.	"	16.68	13.62	13.46	13.36	13.42	16.09
Mar.	"	17.10	13.54	13.38	13.38	13.40	16.04
Apr.	"	16.04	14.41	14.31	14.00	14.24	15.67
May	"	16.75	14.47	14.22	13.90	14.15	15.46
June	"	15.85	14.41	14.18	13.95	14.10	15.28
July	"	15.60	14.22	14.08	13.99	14.07	14.96
Aug.	"	17.69	13.95	13.99	14.05	14.00	14.73
Sept.	"	16.58	13.93	13.82	13.68	13.79	14.42

	Bank rates (4)							Yields	
		Lending in lire			Deposit rates				
	ABI prime rate (5)	Minimum	Normal	Average	Maximum	Normal	Average	Bonds of industrial credit institutions	Treasury bonds
1979 — Dec.	19.50	16.91	20.05	—	12.94	9.66	—	14.27	13.93
1980 — Dec.	21.00	20.24	23.36	—	16.31	11.59	—	16.30	16.17
1981 — Dec.	22.50	22.23	25.37	—	18.73	13.33	—	21.00	21.34
1982 — Dec.	20.75	20.85	24.54	—	18.60	13.31	—	19.86	19.62
1983 — Dec.	18.75	18.80	23.10	—	17.17	12.11	—	17.33	17.69
1984 — Sept.	18.00	17.43	22.09	—	15.79	11.70	—	14.45	15.64
Oct.	"	17.71	22.30	—	15.85	11.70	—	14.31	15.35
Nov.	"	17.72	22.29	—	15.90	11.73	—	14.29	15.25
Dec.	"	17.68	22.24	—	15.96	11.77	—	13.84	14.53
1985 — Jan.	17.00	17.20	21.84	—	15.46	11.39	—	12.86	13.27
Feb.	"	16.89	21.49	—	15.15	10.87	—	12.49	13.29
Mar.	"	16.82	21.43	19.05	15.14	11.02	11.76	12.78	13.51
Apr.	"	16.78	21.35	18.59	15.05	11.14	11.84	13.22	13.57
May	"	16.69	21.32	18.50	14.86	11.04	11.63	13.42	13.89
June	"	16.58	21.24	18.31	14.73	10.74	11.26	13.42	13.91
July	"	16.53	21.10	18.15	14.52	10.27	11.00	13.23	14.12
Aug.	"	16.50	21.04	18.02	14.42	10.20	10.90	13.38	14.09
Sept.	16.00	15.97	20.61	17.72	13.82	9.69	10.44	13.08	13.76

(1) Average rate weighted according to the premiums charged. — (2) Calculated with reference only to issues sold at end-of-month auctions. Annual rates, compound interest formula. — (3) Weighted average of auction rates. — (4) With the exception of the ABI prime rate, rates are based on ten-day returns and calculated as a centered monthly average. For the definition of bank interest rates, see the supplement on banks of the Bank of Italy's *Bollettino Statistico*. — (5) Rates recorded by the Italian Bankers' Association (ABI) on unsecured overdraft facilities granted to prime customers. The figures do not include the maximum overdraft commission of 1/8 of a percentage point per quarter.

Principal assets and liabilities of banks

(billions of lire)

ASSETS

	Bank reserves (1)	Credits: Loans in lire	Credits: Loans in foreign currency	Credits: Bankers' acceptances acquired	Credits: Treasury bills (2) (*)	Credits: Other securities (3) (*)	Bad debts (4)	Interbank accounts	Interbank accounts: of which: special credit institutions
1982 — Dec. ...	49,639	137,864	16,500	948	50,923	101,018	9,267	85,059	7,507
1983 — Dec. ...	58,007	156,828	21,574	398	47,972	132,126	11,566	97,158	7,662
1984 — Aug. ...	63,206	176,255	27,011	76	32,461	128,060	13,936	65,215	6,355
Sept. ..	62,588	177,604	28,550	70	38,160	130,943	14,061	69,402	6,102
Oct. ...	65,754	180,770	28,569	58	39,552	132,776	14,332	69,440	6,491
Nov. ..	67,986	182,543	29,311	53	37,391	136,015	14,315	73,106	6,570
Dec. ...	67,807	185,014	30,531	49	42,291	144,746	14,569	102,789	8,277
1985 — Jan. ...	77,656	188,398	31,051	50	32,032	139,699	15,121	75,488	7,142
Feb. ...	76,049	186,898	32,367	40	27,986	140,349	15,253	73,931	6,427
Mar. ...	73,726	186,874	32,032	17	28,241	145,553	15,526	74,382	6,388
Apr. ...	74,688	192,740	30,928	16	28,131	149,052	15,768	74,183	6,365
May ...	75,745	192,407	31,568	16	28,030	149,247	16,064	75,754	6,647
June ...	74,288	191,748	31,014	21	30,334	156,304	16,208	73,447	6,512
July ...	75,243	198,428	31,135	17	27,270	156,349	16,505	70,907	5,869
Aug. ...	75,744	195,198	29,374	19	29,100	157,200	16,693	72,957	6,436

LIABILITIES

	Deposits (5)	Deposits: of which: current accounts	Other domestic funds (6)	Loans from BI-UIC	Interbank accounts	Interbank accounts: of which: special credit institutions	Equity capital	Net foreign position (7)	Bankers' acceptances issued (8)
1982 — Dec. ...	328,448	180,046	2,318	3,625	75,221	6,632	21,312	13,957	2,707
1983 — Dec. ...	372,245	202,711	3,568	6,349	88,572	5,252	29,518	20,398	1,590
1984 — Aug. ...	361,348	191,433	4,184	5,162	58,502	4,058	36,897	26,299	747
Sept. ..	367,774	196,083	4,251	4,977	63,656	3,620	37,031	26,870	716
Oct. ...	371,109	198,351	4,722	7,105	62,691	3,178	37,135	26,415	715
Nov. ..	372,166	197,659	4,625	4,975	66,918	3,467	37,200	26,841	696
Dec. ...	415,581	227,668	4,949	2,864	93,751	4,518	36,989	27,715	609
1985 — Jan. ...	411,126	219,717	5,347	3,838	68,765	5,166	36,823	28,593	572
Feb. ...	405,608	214,697	5,718	4,293	70,597	4,683	36,935	29,329	569
Mar. ...	407,372	215,902	5,893	2,881	68,527	4,689	38,806	28,607	554
Apr. ...	410,346	218,002	5,556	5,400	69,342	3,730	41,898	....	509
May ...	406,055	213,598	5,397	3,684	70,824	3,746	42,154	....	476
June ...	410,718	217,576	5,537	2,574	70,571	5,002	41,692	....	462
July ...	414,333	220,729	5,416	2,670	66,151	4,282	42,087	....	456
Aug. ...	414,780	219,600	5,350	3,093	66,059	3,979	42,100		456

(1) Comprises lira liquidity (excluding deposits with the PO and the Deposits and Loans Fund), compulsory reserves, collateral in respect of bankers' drafts, and, until October 1983, the non-interest-bearing deposit against ceiling overshoots. — (2) At face value. — (3) Italian and foreign lira securities for trading, investment and repurchase agreements at balance sheet value (shares are excluded). — (4) Including protested bills. — (5) Lira deposits by non-bank resident customers. — (6) Trust accounts and residents' foreign-exchange accounts. — (7) Source, UIC. — (8) Bankers' acceptances issued are included among guarantee commitments. Only those acquired by banks represent actual disbursement of funds by the banking system. — (*) Securities subject to repurchase agreements are included in the case of temporary purchases and excluded in that of temporary sales.

Table a29

Loans by branch of economic activity and type of enterprise

(billions of lire)

	BANKS				SPECIAL CREDIT INSTITUTIONS			
	Total as of July 1985	% change in the 12 months ending			Total as of July 1985	% change in the 12 months ending		
		Dec. 84	March 85	July 85		Dec. 84	March 85	July 85
General government	11,126	36.9	34.9	−5.0	20,989	25.1	22.9	23.3
Credit and insurance institutions	9,670	40.0	31.7	47.7	4,328	20.9	34.7	49.7
Non-financial firms	185,596	23.2	18.3	13.3	89,787	12.2	13.1	8.5
Agriculture, forestry and fisheries	7,152	16.9	12.3	11.5	5,785	16.3	14.7	16.1
Industry	122,700	22.8	18.7	12.4	54,334	10.9	12.6	8.0
Mining and quarrying	1,832	7.1	18.8	−15,7	977	70.9	107.7	45.6
Food and related products	11,458	24.2	20.0	12.3	4,513	12.2	11.0	11.1
Textiles	9,753	25.8	20.2	20.8	2,138	5.5	3.2	−1.5
Clothing, footwear, hides & leather	7,670	32.6	29.1	28.3	915	12.0	14.2	18.4
Wood, wooden furniture & fittings	4,941	17.5	18.8	19.7	995	18.1	15.9	15.0
Basic metals	7,149	21.5	13.1	7.0	3,134	18.9	19.5	12.6
Engineering	25,875	24.1	20.1	15.0	11,002	8.2	11.1	7.5
Vehicles	6,657	20.6	20.6	12.3	4,259	9.2	8.5	−0.8
Non-ferrous mineral products	5,260	17.0	17.4	16.2	2,106	11.1	13.8	12.6
Chemicals, oil & coal products	11,208	15.7	9.4	−11.0	4,356	7.7	6.6	−0.3
Rubber and plastics	3,430	15.3	6.6	8.4	1,033	−0.9	−2.3	0.9
Paper, printing, publishing and related products	4,617	24.7	20.1	12.7	1,389	19.7	13.1	0.7
Still and motion picture equipment, sundry manufactures	838	10.2	10.3	17.4	223	8.1	13.2	19.3
Construction and plant installation	19,348	20.0	16.8	18.4	14,641	11.5	10.6	8.1
Production and distribution of power, gas and water	2,664	102.9	78.2	28.0	2,653	5.0	41.9	20.8
Distributive trades, other commercial activities and miscellaneous services	44,397	23.8	20.7	18.2	12,764	17.4	16.1	11.6
Lodging and catering	1,925	26.5	25.7	25.7	1,539	17.0	20.3	18.1
Transport and communications	5,585	22.3	18.8	6.0	13,873	10.8	11.5	0.1
Coordination and financial services to enterprises	3,837	33.7	−4.3	−1.5	1,492	1.2	9.2	36.3
Non-profit institutions, households and unclassifiable	7,486	25.3	24.0	26.4	2,024	24.8	27.0	15.9
TOTAL (RESIDENT CUSTOMERS)	213,878	24.7	19.9	13.7	117,128	14.8	15.6	12.2
of which: public enterprises	*18,910*	*24.5*	*8.3*	*−3.0*	*23,015*	*12.2*	*15.9*	*6.5*
of which: state controlled	*14,385*	*16.5*	*0.5*	*−9.5*	*18,499*	*13.1*	*14.6*	*12.0*
leading private sector firms	*26,121*	*13.4*	*6.1*	*−2.4*	*15,451*	*2.9*	*5.2*	*1.3*
other	*150,233*	*26.0*	*23.4*	*21.0*	*55,649*	*16.1*	*15.8*	*14.0*

Source: Bank of Italy, Central Risks Office.

Net issues of securities

(billions of lire)

	ISSUERS			Total bonds and govern-ment securities	INVESTORS				Shares
	Public sector	Special credit insti-tutions	Public agencies and firms		BI-UIC	Deposits and Loans Fund	Banks	Other	
1979	9,325	4,656	464	14,445	−2,772	206	11,953	5,058	2,732
1980	−1,927	5,648	226	3,947	821	1,175	2,931	−980	3,085
1981	7,498	7,508	807	15,813	1,492	380	5,095	8,846	7,186
1982	23,626	8,147	4,570	36,343	−273	−91	19,744	16,963	6,005
1983	69,942	7,640	2,374	79,956	1,948	562	29,975	47,471	10,899
1984	63,705	4,315	2,035	70,055	6,792	256	11,190	51,817	9,774
1983 — 3rd qtr.	22,012	548	729	23,289	−711	92	10,550	13,358	2,484
4th "	21,291	5,469	378	27,138	5,226	533	13,489	7,890	5,921
1984 — 1st qtr.	19,804	−32	181	19,953	3,961	56	−9,087	25,023	1,836
2nd "	17,382	398	648	18,428	970	137	3,992	13,329	1,458
3rd "	12,917	190	988	14,095	1,702	−36	2,174	10,255	2,546
4th "	13,602	3,759	218	17,579	159	99	14,111	3,210	3,934
1985 — 1st qtr.	23,608	1,155	416	25,179	1,111	153	255	23,660	2,275
2nd " (*)	25,068	1,514	772	27,354	3,982	124	10,305	12,943	1,689
1984 — July	5,307	−344	574	5,537	−405	7	139	5,796	1,834
Aug.	2,661	210	15	2,886	1,012	−2	−264	2,140	366
Sept.	4,949	324	399	5,672	1,095	−41	2,299	2,319	346
Oct.	3,897	873	568	5,338	127	−60	2,335	2,936	562
Nov.	4,726	900	81	5,707	−816	43	3,067	3,413	499
Dec.	4,979	1,986	−431	6,534	848	116	8,709	−3,139	2,873
1985 — Jan.	2,956	−310	−224	2,422	−138	−14	−5,429	8,003	1,290
Feb.	10,486	746	—	11,232	599	179	480	9,974	450
Mar.	10,166	719	640	11,525	650	−12	5,204	5,683	535
Apr.	7,591	−523	−66	7,002	826	4	3,097	3,075	1,050
May	6,581	299	1,289	8,169	3,113	76	−104	5,084	185
June (*)	10,896	1,738	−451	12,183	43	44	7,312	4,784	454
July (*)	4,957	−352	245	4,850	−1,120	−19	−201	6,190	550
Aug. (*)	4,914	−39	−24	4,851	245	—	893	3,713	380

(*) Provisional data.

Table a31

Principal assets and liabilities of the special credit institutions

(billions of lire)

	ASSETS								
	Cash and liquid assets		Government securities	Loans					Other
	of which: interbank deposits			Domestic (1)	of which: industrial	of which: real estate	Foreign	On behalf of the Treasury	
1981 — Dec. ...	4,014	4,854	2,857	81,877	44,926	22,686	3,637	10,572	1,489
1982 — Dec. ...	4,600	5,452	8,148	96,530	53,859	25,974	4,360	9,913	562
1983 — Dec. ...	4,389	5,196	11,409	109,933	59,044	29,687	4,693	9,684	−1,991
1984 — Nov. ..	3,240	3,802	14,764	120,770	64,108	32,592	4,554	8,802	−6,370
Dec. ...	4,257	4,964	15,023	125,300	66,144	32,927	4,585	9,193	−7,941
1985 — Jan. ...	5,076	5,724	15,969	124,966	65,804	33,066	4,442	8,703	−10,051
Feb. ...	4,691	5,347	16,972	125,984	66,385	33,363	4,679	8,705	−10,420
Mar. ...	4,855	5,435	17,162	127,461	67,189	33,802	4,553	8,703	−10,761
Apr. ...	3,707	4,222	16,319	127,864	67,380	34,043	4,503	8,703	−9,688
May ...	3,555	4,410	16,141	127,703	66,836	34,291	4,557	8,697	−9,068
June ...	4,553	5,482	16,929	127,131	66,767	34,193	4,488	8,271	−7,547
July ...	4,522	5,407	19,029	127,798	67,037	34,530	4,211	8,226	−10,781
Aug. ...	4,000	4,800	18,840	129,060	67,960	34,760	4,180	8,226	−10,743

	LIABILITIES								
	Savings deposits	Bonds				Current accounts with banks	Public funds	Medio-credito centrale	Foreign loans (2)
		Ordinary	of which: industrial	of which: real estate	On behalf of the Treasury				
1981 — Dec. ...	9,515	68,863	32,374	24,411	10,904	4,864	3,091	2,097	5,952
1982 — Dec. ...	18,060	77,172	34,809	28,364	10,015	4,022	3,712	2,379	9,605
1983 — Dec. ...	19,264	85,134	36,147	32,075	9,119	4,314	4,696	2,436	13,961
1984 — Nov. ..	21,617	87,696	35,698	33,135	8,160	4,291	4,898	2,404	17,256
Dec. ...	23,480	89,554	35,871	33,605	8,159	4,912	4,767	2,422	17,830
1985 — Jan. ...	23,705	89,229	35,335	33,674	7,678	4,128	4,746	2,382	17,885
Feb. ...	24,424	89,993	35,627	34,149	7,638	3,609	4,759	2,402	18,442
Mar. ...	24,988	90,738	36,071	34,342	7,571	3,531	4,864	2,387	18,474
Apr. ...	24,857	90,228	35,629	34,247	7,568	3,300	4,822	2,390	18,758
May ...	24,816	90,590	35,917	34,315	7,567	3,547	4,793	2,391	18,736
June ...	25,522	92,369	36,786	34,919	7,567	3,363	4,856	2,350	18,727
July ...	25,397	92,037	36,252	35,139	7,253	2,914	4,980	2,342	18,967
Aug. (*) .	24,980	91,980	36,030	35,300	7,253	3,120	5,320	2,380	19,330

(1) Excluding financing of compulsory stockpiling. — (2) Gross of exchange rate variations. — (*) Partially estimated data.

Total domestic credit (1)

(changes in billions of lire; % changes)

	Total domestic credit	Loans to the non-state sector (2)	State sector borrowing requirement (3)	Total domestic credit		Loans to the non-state sector	
				3-month (4)	12-month	3-month (4)	12-month
1979	53,748	25,217	28,531	—	18.7	—	16.5
1980	63,271	29,256	34,015	—	18.6	—	16.4
1981	73,334	28,092	45,242	—	18.1	—	13.5
1982	100,391	31,404	68,987	—	20.9	—	13.4
1983	120,543	35,002	85,541	—	20.7	—	13.1
1984	143,154	51,790	91,364	—	20.3	—	17.0
1983 — July	18,114	8,488	9,626	4.7	20.6	2.9	13.8
Aug.	6,311	−2,828	9,139	4.9	20.4	2.2	12.5
Sept.	8,995	−163	9,158	5.7	20.0	2.8	11.8
Oct.	14,300	6,748	7,552	5.3	20.1	2.8	13.0
Nov.	13,441	4,578	8,863	5.6	21.2	4.0	13.9
Dec.	15,906	8,331	7,575	5.3	20.7	3.9	13.1
1984 — Jan.	7,397	5,097	2,300	4.7	21.4	4.6	14.7
Feb.	8,485	1,876	6,609	4.3	21.4	4.4	15.3
Mar.	11,189	2,553	8,636	4.4	21.4	4.4	14.3
Apr.	14,677	5,461	9,216	5.2	21.5	4.1	15.2
May	9,459	1,872	7,587	5.2	21.6	4.0	15.3
June	6,442	3,779	2,663	4.6	21.5	4.4	16.5
July	18,422	10,627	7,795	4.2	20.9	4.2	16.7
Aug.	6,349	−652	7,001	4.1	20.7	4.3	17.6
Sept.	12,965	4,103	8,862	5.3	21.0	5.2	19.1
Oct.	14,842	5,623	9,219	5.1	20.7	4.3	18.3
Nov.	13,849	4,280	9,569	5.3	20.3	4.2	17.9
Dec.	19,078	7,171	11,907	4.7	20.3	2.0	17.0
1985 — Jan.	8,754	2,793	5,961	4.4	20.3	2.5	16.0
Feb.	8,752	−67	8,819	4.1	20.1	2.1	15.3
Mar.	15,042	1,801	13,241	4.4	20.3	2.5	14.9
Apr.	13,697	4,600	9,097	4.7	19.8	2.6	14.4
May	10,738	2,200	8,538	4.9	19.7	3.2	14.4
June	5,932	−1,403	7,335	3.8	19.4	2.3	12.6
July	16,878	8,298	8,580	3.4	18.8	1.6	11.5
Aug.	3,650	−3,214	6,864	2.9	18,3	1,0	10,8

(1) Total domestic credit comprises bank loans in lire and foreign currencies (adjusted for exchange rate variations and for the bank loans used to finance non-interest-bearing deposits on payments abroad), special credit institution loans, bond issues by companies and local authorities, the state sector borrowing requirement (the Treasury, the Deposits and Loans Fund, the Southern Italy Development Fund, and the autonomous government agencies), net of Treasury credit to credit institutions. — (2) Includes the debt funding operations referred to in footnote 3; and, since September 1984, banks' purchases of securities under resale agreements with customers. — (3) Net of financing of credit institutions, debt funding operations and foreign debt. — (4) Seasonally adjusted. — (*) Provisional data.

Table a33

Monetary aggregates and their counterparts

(changes in billions of lire)

	1982	1983	1984		1985			
			Year	Jan.-June	Apr.	May	June	Jan.-June
A) BI-UIC								
ASSETS								
Foreign sector *(a1)*	−5,582	8,788	5,195	540	−92	1,377	....	....
State sector *(a2)* (1)	12,362	1,125	13,529	1,303	−1,605	2,595	−1,414	9,802
Banks *(a3)*	1,049	2,768	−3,550	2,787	2,074	−2,601	−810	−229
Special credit institutions *(a4)*	123	241	433	177	18	−428	−65	−318
Other *(a5)*	2,636	−492	−2,130	−1,000	−1.161	2,792	....	....
LIABILITIES								
Private sector *(a6)*	3,354	3,861	3,561	−1,046	−786	279	1,872	−202
Banks *(a7)*	7,234	8,569	9,916	4,853	20	3,456	−4,051	6,894
B) Banks								
ASSETS								
BI-UIC *(b1 = a7)*	7,234	8,569	9,916	4,853	20	3,456	−4,051	6,894
Foreign sector *(b2)*	3,062	−4,996	−5,138	−4,766	−4,406	−642	....	....
State sector *(b3)* (1)	30,950	21,417	4,635	−17,023	4,013	−118	8,273	774
Non-state sector *(b4)*	15,567	23,157	38,160	17,896	4,796	759	−1,302	6,870
Special credit institutions *(b5)*	4,392	4,641	2,115	−2,127	57	388	−99	−2,542
Other *(b6)*	−4,991	−9,626	−9,444	−9,861	770	−10,513	....	....
LIABILITIES								
Non-state sector:								
current accounts *(b7)*	24,461	21,915	26,226	−11,311	2,190	−4,169	3,753	−10,031
savings deposits *(b8)*	23,521	17,852	14,080	−5,800	457	−345	311	−448
repurchase agreements *(b9)*	4,186	−3,371	32	1,065	199	215	−194	707
banks' CDs *(b10)*	....	3,257	4,276	2,899	415	460	370	5,666
BI-UIC *(b11 = a3)*	1,049	2,768	−3,550	2,787	2,074	−2,601	−810	−229
State sector *(b12)*	997	741	−820	−668	−85	−230	229	−32

(1) Including the securities used to extinguish credit institutions' tax credits. These securities have already been reported in the latter's statistical returns even though they are not yet recorded in the budget accounts.

Monetary aggregates and their counterparts

(changes in billions of lire)

	1982	1983	1984		1985			
			Year	Jan.-June	Apr.	May	June	Jan.-June
C) State sector								
DOMESTIC BORROWING REQUIREMENT *(c1)*	70,083	87,346	93,080	37,760	9,161	9,027	8,215	54,946
LIABILITIES TOWARDS:								
Non-state sector								
PO savings:								
current accounts: *(c2)*	1,167	2,235	657	821	400	−147	−326	433
savings deposits *(c3)*	2,800	3,687	5,664	1,226	183	102	67	1,338
Treasury bills and other government securities	16,470	54,225	63,760	50,377	5,783	7,667	5,842	42,931
BI-UIC *(c5 = a2)*	12,362	1,125	13,529	1,303	−1,605	2,595	−1,414	9,802
Banks *(c6 = b3)*	29,953	20,676	5,455	−16,355	4,098	112	8,044	806
Other *(c7)*	7,331	5,398	4,015	388	302	−1,302	−3,998	−364
D) Monetary aggregates and their counterparts *(consolidated account of liquidity-creating bodies)*								
MONETARY AGGREGATES								
M1 *(d1 = a6 + b7 + c2)*	30,982	28,011	30,444	−11,536	1,804	−4,037	5,298	−9,800
Savings deposits *(d2 = b8 + c3)*	26,321	21,539	19,744	−4,574	640	−243	378	890
Repurchase agreements *(d3 = b9)*	4,186	−3,371	32	1,065	199	215	−194	707
M2A *(d4 = d1 + d2 + d3)*	61,489	46,179	50,220	−15,045	2,643	−4,065	5,482	−8,203
Banks' CDs *(d5 = b10)*	—	3,257	4,276	2,899	415	460	370	5,666
M2 *(d6 = d4 + d5)*	61,489	49,436	54,496	−12,146	3,058	−3,605	5,852	−2,537
SOURCES								
Foreign sector *(d7 = a1 + b2)*	−2,520	3,792	57	−4,226	−4,498	735	....	....
State sector *(d8 = c1 − c4 − c7)*	46,282	27,723	25,305	−13,005	3,076	2,662	6,371	12,379
Non-state sector *(d9 = b4)*	15,567	23,157	38,160	17,896	4,796	759	−1,302	6,870
Special credit institutions *(d10 = a4 + b5)*	4,515	4,882	2,548	−1,950	75	−40	−164	−2,859
Other *(d11 = a5 + b6)*	−2,355	−10,118	−11,574	−10,861	−391	−7,721	....	....

Table a34

Liquid assets held by the non-state sector

(amounts outstanding in billions of lire; % changes on corresponding period)

	End-of-period amounts				End-of-period changes			
	M1 (1)	M2A (2)	M2 (3)	M3 (4)	M1	M2A	M2	M4
1979 — Dec.	148,468	274,789	174,789	294,291	24.4	20.8	20.8	23.6
1980 — Dec.	168,498	309,804	309,804	346,636	13.5	12.7	12.7	17.8
1981 — Dec.	185,657	340,737	340,737	403,028	10.2	10.0	10.0	16.3
1982 — Dec.	216,639	402,226	402,226	475,559	16.7	18.0	18.0	18.0
1983 — July	211,934	395,224	398,090	484,850	15.8	16.6	17.4	15.0
Aug.	210,959	396,330	399,430	488,024	16.8	17.1	18.0	15.4
Sept.	214,817	401,013	404,210	493,168	16.6	16.6	17.6	15.9
Oct.	216,454	403,492	406,809	496,768	15.8	16.0	17.0	16.4
Nov.	214,131	401,939	405,182	497,900	10.9	12.9	13.8	15.0
Dec.	244,650	448,405	451,662	540,243	12.9	11.5	12.3	13.6
1984 — Jan.	232,946	436,304	440,828	538,552	12.9	11.6	12.7	14.7
Feb.	227,969	429,094	434,278	536,485	12.2	10.9	12.2	14.5
Mar.	230,116	430,479	435,958	539,247	13.6	11.9	13.0	14.8
Apr.	230,994	431,243	436,863	541,353	13.6	11.9	13.0	14.8
May	228,715	429,059	434,940	542,430	13.7	12.1	13.0	14.9
June	233,114	433,360	439,516	546,835	12.6	11.3	12.2	14.1
July	236,556	438,344	444,754	552,739	11.6	10.9	11.7	14.0
Aug.	233,596	437,356	443,960	554,318	10.7	10.4	11.1	13.6
Sept.	238,120	444,027	450,729	561,921	10.8	10.7	11.5	13.9
Oct.	241,294	447,933	455,031	568,998	11.5	11.0	11.9	14.5
Nov.	241,182	449,276	456,561	573,143	12.6	11.8	12.7	15.1
Dec.	275,095	498,626	506,159	615,929	12.4	11.2	12.1	14.0
1985 (*) Jan.	266,818	492,280	502,173	615,802	14.5	12.8	13.9	14.3
Feb.	260,503	484,665	495,846	614,373	14.3	13.0	14.2	14.5
Mar.	262,229	486,362	498,316	616,984	14.0	13.0	14.3	14.4
Apr.	264,033	489,006	501,375	623,277	14.3	13.4	14.8	15.1
May	259,997	484,941	497,770	624,446	13.7	13.0	14.4	15.1
June	265,296	490,424	503,613	631,738	13.8	13.2	14.6	15.5
July	270,078	496,535	509,377	639,800	14.2	13.3	14.5	15.8
Aug.	268,259	496,588	509,355	641,344	14.8	13.5	14.7	15.7

(1) Currency and current accounts. — (2) Currency, current accounts, savings deposits and banks' securities repurchase agreements with customers. — (3) M2A plus banks' CDs conforming with the Ministerial Decree of 28.12.1982. — (4) M2 plus bankers' acceptances and Treasury bills. — (*) Provisional data.

Table a35

Financial assets held by the non-state sector and their counterparts

(changes in billions of lire)

	Financial assets	Financing of the non-state sector by: Banks (1)	Special credit institutions (1)	Bonds	State sector (2)	Shares	Other domestic liabilities (3)	Foreign sector	State sector (4)	Foreign sector (5)	Unclassified
1979	63,504	18,982	5,747	488	2,234	2,091	2,788	2,680	26,681	934	879
1980	56,497	20,437	8,663	155	4,835	2,673	3,710	4,733	29,029	−10,145	−7,593
1981	76,332	15,201	14,517	756	6,291	4,475	2,835	9,463	42,234	−7,675	−11,765
1982	89,403	11,355	13,256	4,412	11,592	4,054	2,234	3,517	58,933	−10,048	−9,902
1983	122,427	21,462	11,119	2,422	14,139	8,555	2,972	1,735	72,011	706	−12,694
1984	137,963	35,928	14,003	1,859	10,781	6,923	3,305	1,339	81,622	−7,254	−10,543
1983 - July	9,124	7,333	694	460	587	618	107	313	8,730	1,539	−11,257
Aug.	8,127	−4,235	1,363	44	3,488	1,545	221	−261	6,119	1,982	−2,139
Sept.	9,070	−1,267	865	238	325	−24	196	294	7,557	−143	1,029
Oct.	13,591	6,319	706	−277	434	2,430	288	−151	7,408	−536	−3,030
Nov.	3,724	3,332	900	345	560	15	235	236	8,414	−99	−10,214
Dec.	44,423	4,295	3,705	331	1,498	2,519	166	−300	6,348	42	25,819
1984 - Jan.	7,147	5,345	−411	163	1,245	797	691	217	1,095	−818	−1,177
Feb.	6,528	1,436	432	7	899	209	373	716	5,502	−1,419	−1,627
Mar.	9,702	1,440	1,119	−5	1,641	270	210	−437	7,115	−1,412	−239
Apr.	8,509	4,429	565	466	308	65	243	639	8,939	−737	−6,408
May	7,296	978	751	143	1,766	443	146	−620	5,704	−268	−1,747
June	8,715	3,240	662	−122	2,628	131	89	250	−15	−967	2,819
July	11,616	8,801	1,256	570	168	1,798	543	−706	7,270	649	−8,733
Aug.	3,015	−2,023	1,354	16	271	13	421	867	6,926	1,357	−6,187
Sept.	11,188	3,142	562	398	864	474	358	−1,058	9,768	−613	−2,707
Oct.	10,500	3,144	1,910	569	−226	340	213	−195	9,000	−425	−3,830
Nov.	8,610	2,513	1,684	82	400	—	−94	1,335	10,831	−590	−7,551
Dec.	45,139	3,482	4,119	−429	818	2,384	113	332	9,488	−2,011	26,843
1985 - Jan.	7,757	3,502	−367	−342	3,503	780	817	1,018	1,736	−495	−2,395
(*) Feb.	6,782	−1,075	1,006	1	460	−212	441	826	8,191	−1,767	−1,089
Mar.	9,416	−325	1,483	643	411	478	586	−65	13,019	−2,424	−4,390
Apr.	11,269	4,577	248	−226	345	1,083	92	375	9,648	−2,204	−2,669
May	5,088	382	528	1,289	331	−1,497	198	2,446	7,737	122	−6,448
June		−503	−449	−451	2,081		42		4,285		
July		7,492	665	141	−710		296		9,410		
Aug.		−4,453	1,262	−23	−238		180		5,391		

(1) Data adjusted for securities issued to fund debts; foreign currency bank loans adjusted for exchange rate variations. — (2) Loans and equity participations of the Treasury and loans of the Deposits and Loans Fund. Net of the funding of the debts of municipalities and enterprises. — (3) Includes credits with BI-UIC, bankers' acceptances held by the non-state sector, estimated atypical securities and credit institutions' bad debts. — (4) Net of the funding of the debts of health and social security institutions. — (5) Current account balance on a settlements basis. — (*) Provisional data.

Economic policy provisions

Monetary and credit policy

The official discount rate was reduced from 16.50 to 15.50 per cent with effect as from 4 January 1985. At the same time, the banks' securities investment requirement was renewed for 1985 (the measure requires banks to invest part of their assets in bonds issued by real estate and agricultural credit institutions).

Exchange provisions

In January 1985 the foreign currency export financing requirement was reduced from 50 to 25 per cent. In June the Ministerial decree of 12 March 1981 governing exchange controls and external financial transactions was amended. Specifically, the size of loans that residents may contract abroad without prior authorization was increased. In July, new provisions were enacted to regulate banks' forward exchange operations and to ensure more accurate reporting of banks' net foreign debt positions.

Fiscal policy

On 15 and 17 April legislation was passed to raise most of private and public sector employees' pensions. In July a decree law reduced the share of social security contributions assumed by the government. The same decree law requested the special credit institutions to transfer to the Treasury local authorities' funds held by them, and speeded up the procedures for collecting revenues from the condonation of building offences.

Statistical aggregates

Autonomous government agencies

— *railways (FS), roads (ANAS), post and telecommunications (PT), state monopolies (MS), telephone service (ASST), state forests, and agricultural market intervention (AIMA).*

Deposits and Loans Fund

— *run by the Treasury, its resources consist of funds placed with the PO and its lending is almost all to local authorities.*

M1 — Primary liquidity:

— *currency in circulation, bank and PO current accounts (the latter net of "service" accounts) and sight deposits with the Treasury.*

Secondary liquidity

— *bank and PO savings deposits and bank CDs.*

M2: *M1 + secondary liquidity.*

M3: *M2 + Treasury bills.*

Monetary base

— *notes and coin held by the non-state sector and banks*
— *deposits of the non-state sector and banks with the Bank of Italy*
— *deposits of banks with the Treasury*
— *banks' unused overdraft facilities with the Bank of Italy*
— *bills and current account overdrafts in respect of the financing of compulsory stockpiling and of corn marketing campaigns until 1963-64*
— *banks' liquid foreign assets (sight deposits and short-term investments in respect of the part that is freely available and convertible into lire under the regulations governing borrowing from abroad and convertibility)*
— *Treasury bills used to meet banks' reserve requirement (until February 1976).*

Non-state public bodies

— *local authorities and social security institutions.*

Non-state sector

— *households*
— *firms (including public enterprises)*
— *insurance companies*
— *non-state public bodies.*

Private sector

— *households*
— *firms (including public enterprises).*

Public enterprises

— *ENEL and the state-controlled companies*
— *autonomous government agencies producing marketed goods and services*
— *municipal companies.*

Public sector

— *state sector*
— *local authorities*
— *social security institutions.*

State sector

— *the Treasury*
— *Deposits and Loans Fund*
— *Southern Italy Development Fund*
— *autonomous government agencies.*

Total domestic credit (TDC)

— *bank lending in lire and foreign currency*
— *lending of the special credit institutions*
— *domestic bonds of firms and local authorities*
— *state sector borrowing requirement net of borrowing abroad and Treasury lending to credit intermediaries.*

Statistical aggregates cont.
(Labour market)

First job seekers

— *persons who have never worked or who have voluntarily not worked for over a year and who are looking for a job, have a job starting subsequently or plan to start a business and have the means to do so.*

Labour force

— *employed persons (excluding conscripts) plus job seekers (unemployed persons, first job seekers and other job seekers).*

Other job seekers

— *persons who declare they are of non-working status (housewives, students and pensioners, etc.) but also declare that they are seeking employment. This category also includes unemployed persons and first job seekers who plan to start a business but have not yet the means to do so.*

Scala mobile

— *the nationwide system of wage indexation, providing all employees with increases given by the product of the number of points by which the trade union price index rose in the previous quarter and the value of the point; since 1975 this has been the same for all employees and is equal to 6,800 lire per month.*

Under-employed persons

— *persons working less than 26 hours in the survey week owing to lack of demand for labour.*

Unemployed persons

— *persons who have previously been in employment and who are looking for a job, have a job starting subsequently or plan to start a business and have the means to do so.*

Unemployment rate

— *ratio of job seekers to the labour force.*

Unemployment rate adjusted for Wage Supplementation

— *ratio of job seekers plus equivalent full-time workers on Wage Supplementation to the labour force*

Wage Supplementation Fund

— *a fund administered by INPS to supplement the wages of workers in industry who have been temporarily laid off or put on short time without termination of employment. INPS (with a nominal contribution from firms) pays such workers up to about 80 per cent of their gross standard hourly rate. "Ordinary" payments cover short-term layoffs (up to three months), "extraordinary" payments long-term ones (normally limited to two years).*

List of abbreviations

ABI — *Associazione bancaria italiana*
— Italian Banking Association —

BI-UIC — *Banca d'Italia-Ufficio italiano cambi*
— Bank of Italy-Italian Foreign Exchange Office —

CICR — *Comitato interministeriale per il credito e il risparmio*
— Interministerial Committee for Credit and Savings (Credit Committee) —

CIP — *Comitato interministeriale per i prezzi*
— Interministerial Committee on Prices —

CIPE — *Comitato interministeriale per la programmazione economica*
— Interministerial Committee for Economic Planning —

Confindustria — *Confederazione generale dell'industria italiana*
— Confederation of Italian Industry —

Consob — *Commissione nazionale per le società e la borsa*
— Companies and Stock Exchange Commission —

EFIM — *Ente partecipazioni e finanziamento industria manifatturiera*
— Shareholding and Financing Agency for Manufacturing Industry —

ENEL — *Ente nazionale energia elettrica*
— National Electricity Agency —

ENI — *Ente nazionale idrocarburi*
— National Hydrocarbon Agency —

ILOR — *Imposta locale sui redditi*
— Local income tax —

INA — *Istituto nazionale assicurazioni*
— National Insurance Institute —

INPS — *Istituto nazionale per la previdenza sociale*
— National Social Security Institute —

INVIM — *Imposta nazionale sul valore immobiliare*
— Capital gains tax on property —

IRI — *Istituto per la ricostruzione industriale*
— Institute for Industrial Reconstruction —

IRPEF — *Imposta sul reddito delle persone fisiche*
— Personal income tax —

IRPEG — *Imposta sul reddito delle persone giuridiche*
— Corporate income tax —

Isco — *Istituto nazionale per lo studio della congiuntura*
— National Institute for the Study of the Economic Situation —

Istat — *Istituto centrale di statistica*
— Central Institute for Statistics —

SACE — *Sezioni specifiche per l'assicurazione del credito all'esportazione*
— Special Department for the Insurance of Export Credits —

SOCOF — *Sovraimposta comunale sui fabbricati*
— Municipal surtax on buildings —

UIC — *Ufficio italiano cambi*
— Italian Foreign Exchange Office —

MANAGEMENT OF THE BANK OF ITALY

as at 31 October 1985

THE DIRECTORATE

Carlo Azeglio CIAMPI	— Governor
Lamberto DINI	— Director General
Antonio FAZIO	— Deputy Director General
Tommaso PADOA-SCHIOPPA	— Deputy Director General

CENTRAL MANAGERS

Giorgio SANGIORGIO	— Chief Legal Adviser
Antonio MONTORO	— Inspector General
Luigi PATRIA	— Central Manager for Technical Departments
Felice SCORDINO	— Central Manager for the Rome Branch
Vincenzo DESARIO	— Central Manager for Banking Supervision
Antonio FINOCCHIARO	— Secretary General
Rainer Stefano MASERA	— Central Manager for Economic Research
Pierluigi CIOCCA	— Central Manager for Central Bank Operations
Luigi GIANNOCCOLI	— Accountant General