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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.

"Post Office deposits" includes PO savings certificates.

Economic developments and policies

The international economy

Developments and policies in the industrial countries

During the first six months of 1987 world economic activity was subject to great uncertainty regarding the future trend of output and to anxieties about the persistence of huge imbalances in the payments positions of the three major industrial countries. After a slowdown at the beginning of the year, economic activity in the industrial nations appeared to pick up during the second quarter. In the first half, gross product rose by more than expected in the United States (3.2 per cent on an annual basis), Canada (4.6 per cent) and the United Kingdom (4.2 per cent), but its development was very disappointing in Germany (−0.1 per cent) and France (1.2 per cent).

The contribution of domestic demand to output growth in the seven major industrial nations differed widely. The highest rate of growth of domestic demand was recorded by Italy (4.3 per cent on an annual basis compared to the second half of 1986). The figure for Japan was 3.7 per cent, for the United Kingdom 2.6 per cent and for the United States and France 1.8 per cent. In Germany the growth of domestic demand was particularly modest (0.8 per cent) and thus did not contribute as expected to an increase in European exports and a reduction of the US current account deficit. The contribution of net exports to GDP growth was positive in the United States and the United Kingdom, mostly as a result of devaluation in their effective exchange rates over the last 12 months. It was negligible or negative in the other countries of the group.

In the second half of 1987 domestic demand is expected to pick up in Germany, Japan, France and the United Kingdom, while remaining substantially unchanged in Italy and the United States. In spite of this, GDP growth over the year will still be well below 1986 rates in Germany and France (Table 1). For the industrial countries as a whole the IMF has predicted a slight reduction in GDP growth in 1987 (2.4 per cent against 2.7 per cent in 1986). The weakening in oil-exporting countries' demand for imports, which damped down the industrial countries' expansion in 1986, will continue during 1987, although in a less pronounced way. World trade is expected to grow by 3.4 per cent, reflecting a slowdown of more than one percentage point in relation to 1986.

For the group of developing countries as a whole, the decline in the growth rate is expected to be more sizable (from 4.0 per cent in 1986 to 3.3 per cent in 1987). This is a reflection above all of the still precarious external position and debt situation in Latin America and many oil-exporting countries, although the external accounts of these latter have benefited from the pick-up in oil prices.

The expansion of economic activity led to an appreciable reduction in the rate of unemployment (about one percentage point) in the 12 months to July in the United States, the United Kingdom and Canada. However, in France and Italy, given the growth of the labour force, unemployment continued to rise, while in Germany it remained stable.

Inflation appears to be increasing again, though only slightly, in all the major industrial countries. In the United States consumer prices rose by 4.3 per cent in the 12 months to August 1987 (against 1.1 per cent during 1986). Increases in the other leading countries were less marked (Table a3). Wage gains were moderate — especially in the United States and Japan — and did not contribute to the strengthening of inflation. Rather, renewed price pressures were principally due to an upturn in the prices of oil and a number of primary goods in the first half of the year and — as far as the United States is concerned — also to the devaluation of the dollar.

Table 1

Gross product, domestic demand and net exports in the leading industrial countries

(constant prices; percentage changes on previous year)

	1985	1986	1987
United States			
GNP	3.0	2.9	2.3
Domestic demand	3.6	3.9	1.7
Net exports (1)	−0.7	−1.0	0.6
Japan			
GNP	4.7	2.4	2.9
Domestic demand	3.8	4.0	4.3
Net exports (1)	1.0	−1.4	−1.2
Germany			
GNP	2.5	2.5	1.3
Domestic demand	1.5	3.7	2.5
Net exports (1)	1.1	−1.1	−1.1
France			
GDP	1.7	2.2	1.2
Domestic demand	2.2	3.7	2.2
Net exports (1)	−0.5	−1.6	−1.0
Italy			
GDP	2.7	2.7	3.0
Domestic demand	3.1	3.2	4.5
Net exports (1)	−0.4	−0.5	−1.6
United Kingdom			
GDP	3.4	3.0	3.4
Domestic demand	2.8	3.5	3.4
Net exports (1)	0.8	−0.7	—
Canada			
GDP	4.3	3.3	3.5
Domestic demand	4.9	3.9	3.6
Net exports (1)	−0.3	−0.5	−0.1

Sources: EEC; for Italy: *Relazione previsionale e programmatica;* for Canada: IMF.

(1) Changes as a percentage of previous year's GNP/GDP.

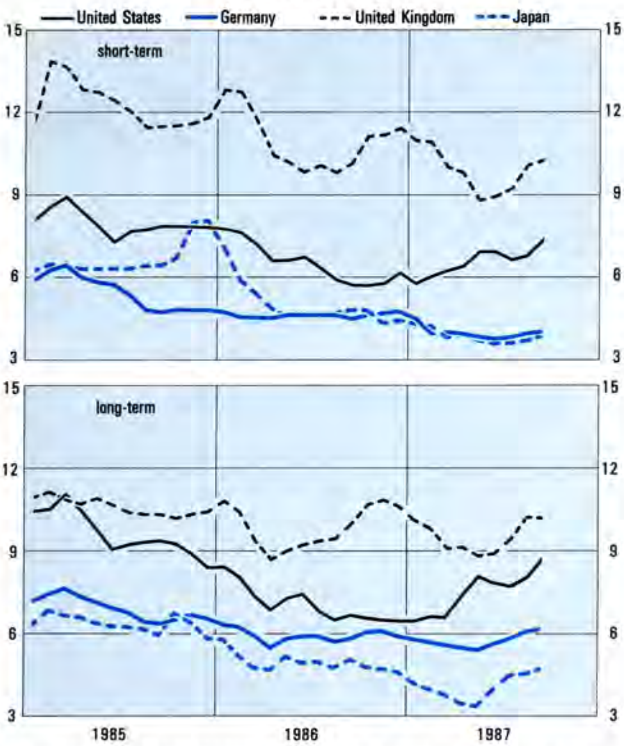
Spot oil prices settled at between 17 and 20 dollars after fluctuating during the second half of 1986 between 11 and 18 dollars. They started to vary widely again in July as a result of the situation in the Persian Gulf and the weakening of discipline among OPEC countries. The aggregate index of primary product prices in dollars rose by 9.6 per cent between December 1986 and August 1987, while the index for metals went up by about 24 points.

Fiscal policy in the United States was restrictive, in line with the Gramm-Rudman-Hollings Balanced Budget Act of 1985, which was modified in September. In the fiscal year ending in September 1987 the federal deficit fell to around 160 billion dollars, against 221 billion for the previous fiscal year. Revenues were higher than expected owing to some transitory effects of the tax reform introduced on 1st January. In Japan budget policy was made decidedly more expansionary. Prior to the Venice Summit at the beginning of June the Japanese authorities announced stimulatory measures amounting to around 6 trillion yen, equal to 1.8 per cent of GNP. Germany's budget policy, on the contrary, remained neutral, with the increase in the budget deficit in the first six months of the year being mostly attributable to the weakness of economic conditions. In the United Kingdom and Italy both public spending and the budget deficit tended to expand, while France and Canada continued to pursue policies of consolidating the public finances.

Monetary policies in most industrial countries were strongly influenced by exchange rate considerations. Heavy intervention to support the dollar resulted in an acceleration of monetary growth, especially in Japan and, to a lesser extent, Germany. In the United States a gradual move towards restraint reflected not only the need for a more stable exchange rate, but also concern about the possible return of inflation. Expectations of a fall in the dollar against the yen and the Deutschemark led to a sharp decline in the flow of foreign capital into the United States and a rise in capital flows towards Germany and Japan, with direct effects on long-term interest rates. Interest rates on United States bonds, which had remained essentially stable between January and March, rose over the next three months by 1.4 percentage points to 8 per cent, while long-term interest rates in Japan fell gradually by 1.2 points between December 1986 and May 1987 (to 3.4 per cent). In Germany they fell by 0.5 percentage point to 5.5 per cent (Table a6 and Figure 1). The differential between interest rates on dollar and yen investments widened considerably in favour of those in dollars, climbing from 1.8 percentage points in December 1986 to 4.6 points in May 1987. The enlargement of interest differentials in favour of the dollar spread also to the short-term markets (Figure 1 and Table a5).

Figure 1

Short and long-term interest rates (1)
(monthly averages)



(1) For sources and definitions, see Appendix, Tables a5 and a6; for the United States, the three-monthly commercial paper rate.

From May onwards long-term interest rates on all the main financial markets showed a tendency to rise. In August they were back at end-1986 levels in both Japan and Germany, having risen by 1.2 and 0.6 percentage points respectively from the minimum levels reached in May. One important reason for this was the success of efforts to stabilize the dollar, which brought forth renewed interest in dollar-denominated assets. Another may have been the revival of inflationary expectations and the fears that the monetary policies of Germany and Japan would be made less expansive.

The increase in interest rates in the United States was accompanied — especially from April onwards — by a considerable slowing down in the growth of the various monetary aggregates. The twelve-month growth rate of M1 fell from 17.3 per cent in January to 15.8 in April and 8.4 per cent in September, while that of M3 declined from 9.0 per cent in January to 5.9 per cent in September. In Germany, by contrast, the growth of central bank money stayed above the upper limit of the target range (3-6 per cent): the rate of increase for the twelve months to September was still 8.1 per cent, though signs of a deceleration had emerged at the start of the summer. In Japan, too, the rate of increase in the money supply (M2) is still very high (9.7 per cent in the twelve months to August).

In the week from 12 to 16 October the Dow Jones index for the New York stock exchange fell by roughly 9 per cent, thus bringing to a halt the strongly bullish phase that had started in August 1982 and had led to a pronounced overpricing of shares. On Monday 19 October the index plunged by a record 23 per cent, dragging with it the stock exchanges of the leading industrial countries, which on the same day gave way by between roughly 2 per cent (Japan) and 12 per cent (United Kingdom). The downward slide continued in Europe and Japan on 20 October.

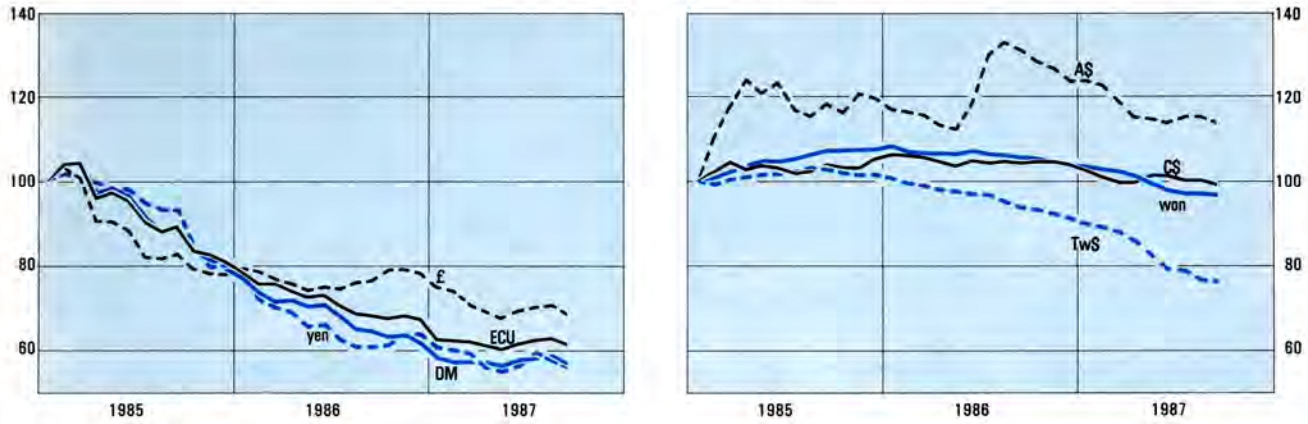
The dollar exchange rate and the EMS

The dollar was under intensive downward pressure until May and required heavy intervention on the part of the principal central banks; the above-mentioned changes in interest rate differentials also helped to counter the pressure. In the first five months of this year intervention in support of the dollar amounted to more than the US current account deficit: in this period the dollar fell by 10.2 per cent against the Deutschemark and by 13.4 per cent against the yen (Figure 2). In effective terms the dollar's decline was approximately of the same order of magnitude, because the currencies of some important trading partners of the United States,

Figure 2

Bilateral exchange rates of the dollar (1)

(indices, January 1985 = 100)



(1) Expressed in units of each currency per dollar.

such as Canada, Australia, South Korea and Taiwan, which had appreciated only slightly or even depreciated up to 1986, rose sharply (Figure 2). The weakness of the dollar has its origins both in the exceptionally large US current account deficit and in the market's awareness of the difficulties of putting into effect the fiscal policy corrections necessary to help reabsorb the external deficit. After an initial period of uncertainty, the stabilizing operation that began with the Louvre Accord in February, and was confirmed at the beginning of April on the occasion of the Group of Seven meeting in Washington, proved on the whole to be effective. Starting in May the dollar moved upwards, gaining 9 per cent against the yen and 7.4 per cent against the Deutschemark by mid-August. Another factor contributing to this strengthening was the sudden increase of tension in the Persian Gulf.

The weakness of the dollar in the first five months of the year led to renewed tensions within the EMS. On 11 January it was decided to realign the central parities, in consequence of strong upward pressures on the Deutschemark (cf. *Economic Bulletin* No. 4). After a period of calm, in April renewed upward pressures on the German currency emerged. The central banks of France and Italy intervened with sales of Deutschemarks to support their currencies, while at the same time allowing their rates of exchange to slide downwards within the fluctuation band (Figure 3).

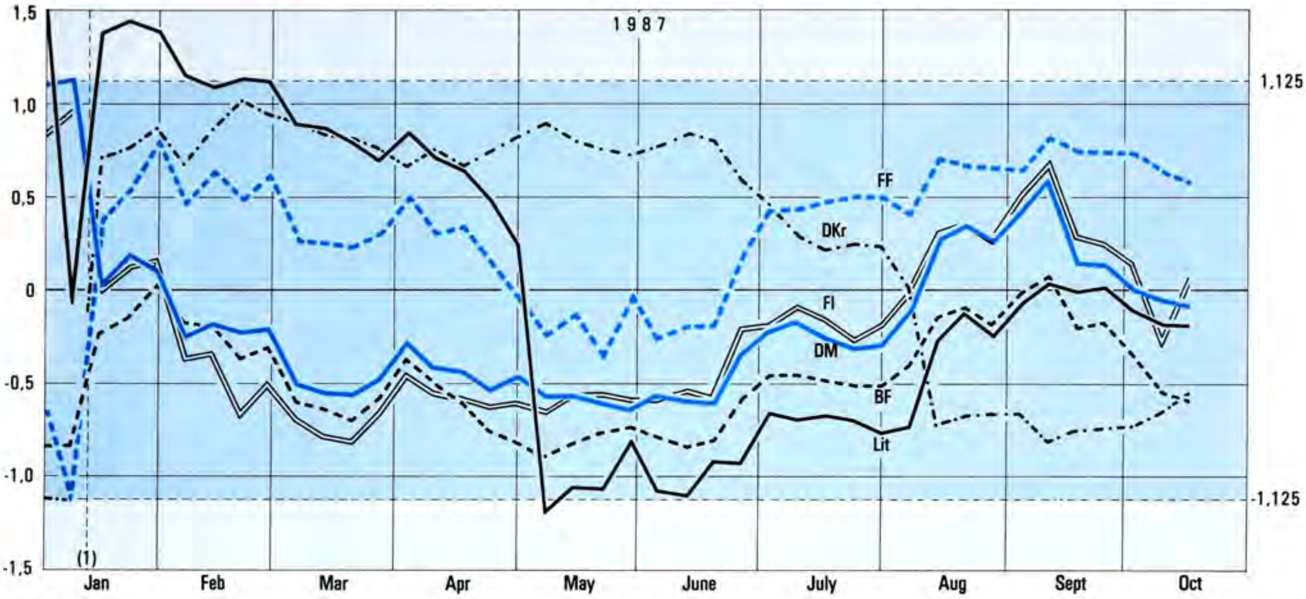
Such pressures continued after the strengthening of the US dollar, partly because of the rise, though only slight, in German interest rates. To some extent the Danish krone and the Belgian franc were involved as well, and in the first fortnight of August especially strong pressure came to bear on the lira. As regards the krone, the Danish central bank refrained from intervention to counter the depreciation that occurred within the fluctuation band from June to mid-August.

Contributing to the tensions that attended the increase in German money market rates were the reduction of such rates in France and, more generally, a strong expansion of domestic demand, which led to a deterioration of external accounts, especially in Italy. In our country, moreover, the liberalization of long-term capital flows revealed even more clearly than in the past the inadequate harmonization of domestic policies – especially in the sphere of public finances – with those of the other EMS countries. Pressure on the lira eased in mid-September as a result of the introduction of

Figure 3

Divergence of market rates from EMS central parities

(percentages)



exchange controls on short-term capital flows and the credit ceiling (see below) and of the gradual fading of expectations of a realignment following the informal meeting in Nyborg of the EC Council of Finance Ministers. The tensions that beset the EMS on the occasion of the January realignment led the Council of Finance Ministers to authorize the Committee of Governors and the Monetary Committee to investigate ways to improve the System's operating mechanisms, partly with a view to adapting them to the increased degree of financial integration. As a result, the Committee of Governors and the Council of Finance Ministers have taken a series of measures to strengthen the System.

Current account imbalances and LDC debt

In the first half of 1987 trade volumes in the United States, Japan and Germany continued to move in the directions expected. US exports, in particular, rose by 8.7 per cent compared to the same period for 1986. Import growth, by contrast, came almost to a halt (0.3 per cent up against 10.5 in the first half of 1986). Germany's change in exports was near zero and Japan's was negative (approximately −2 per cent). Imports in both countries expanded, though more slowly than in the second half of 1986 (Figure 4).

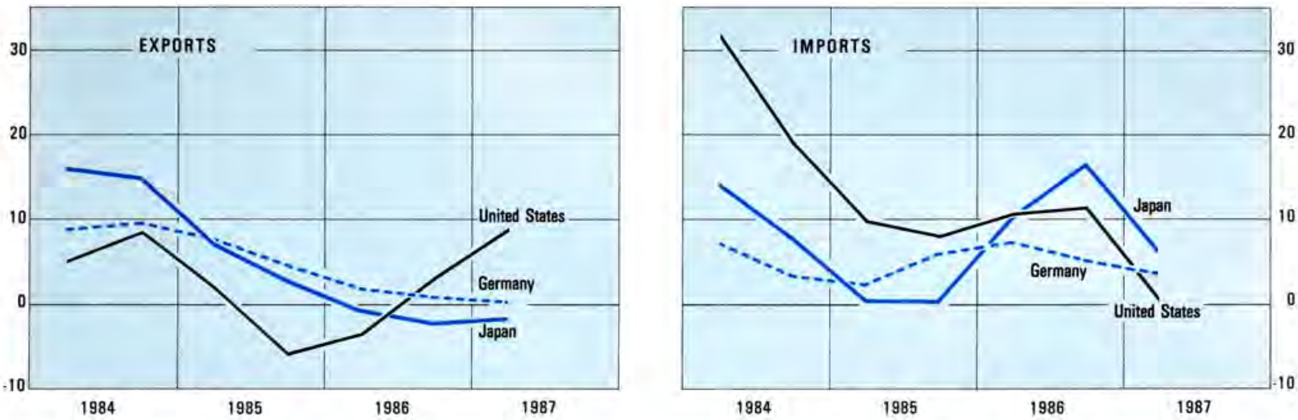
Competitiveness, as measured by real effective rates of exchange calculated on the basis of the wholesale prices of manufactured goods, improved between December 1986 and July 1987 by 4.5 per cent for the United States (Table a10); other countries recorded more modest variations, except the United Kingdom, where the real exchange rate depreciated by about 7 per cent.

For the industrial countries as a whole the IMF forecasts a worsening of the deficit on current account from 18 billion dollars in 1986 to 39 billion in 1987 (Table 2). Almost one half of this change is ascribable to a further widening of the US current account deficit, which is expected to increase from about 141 billion dollars in 1986 to 152 billion this year. Nor does the IMF expect the current account surpluses of Japan and Germany to fall in any significant measure, despite the loss of competitiveness arising from the marked depreciation of the dollar. One reason for this is that the growth in holdings of foreign financial assets swells these countries' net interest receipts. Another is that the positive effect of currency appreciation on the terms of trade still appears to outweigh the deterioration in the trade balance in volume terms.

Figure 4

Exports and imports of goods

(by volume) (1)



(1) Percentage changes on previous six months.

According to IMF forecasts, the current account deficits of the non-energy-exporting LDCs should improve slightly, from about 9 billion dollars in 1986 to about 8 billion in 1987, while the deficit for fuel exporters is expected to fall from 38 to 12 billion (Table 2), thanks to a favourable movement in the terms of trade and to the further decline in the volume of their imports (12 per cent for 1987, against 20.5 per cent in 1986).

The non-fuel-exporters among the LDCs are also expected to show some improvement in their debt to exports and GDP ratios as well as in that of debt service to exports, with their real growth being estimated at about 4.8 per cent. The foreign debt to exports ratio, in particular, is expected to fall from 168 per cent in 1986 to 159 in 1987, while the debt service to exports ratio should fall from 24 to 23 per cent.

The debt position of the fifteen most heavily indebted countries continues to cause concern. Their terms of trade, which deteriorated by 15 per cent in 1986, are likely to worsen by another 1 per cent in 1987, and their current account deficit is expected to remain high (11 billion dollars in 1987 against 15 billion in 1986). In the same period the debt service to exports ratio is estimated to rise from 51 to 52 per cent (against figures of between 42 and 44 per cent for the years 1983-85). Foreign debt should remain equivalent to about three and a half times the annual value of exports and about half that of GDP.

The picture varies widely from one country to another. There was an improvement in the short-term outlook in Mexico, where the recovery of oil prices and the rapid expansion of non-oil exports led to a strong increase in currency reserves (from 5.7 billion dollars at end-1986 to 14.6 in August 1987). By contrast, the stabilization programmes initiated last year in Argentina and Brazil are beset with difficulties. In Argentina, in particular, the balance of trade situation has been worsening. In October the government adopted a package that includes a wage and price freeze and a depreciation of the currency. Tight fiscal measures have also been announced to reduce the budget deficit. In Brazil inflation is rising sharply: moreover, the partial suspension of payments for the servicing of foreign debts, announced in February, and the refusal to arrange a programme with the IMF further reduce the hopes for reaching agreement on a refinancing deal.

The economic and financial situation of the poorest countries remains critical, partly because of the continuing deterioration in their terms of trade. Per capita income in the sub-Saharan countries of Africa is expected to fall by 0.8 per

Table 2

Trade and current account balances

(billions of dollars)

	1985		1986		1987	
	(a)	(b)	(a)	(b)	(a)	(b)
United States	−122.2	−116.4	−144.3	−141.4	−155.0 (1)	−152.1
Other industrial countries	83.1	65.0	143.7	123.3	137.5	113.2
of which:						
Japan	*56.0*	*49.3*	*92.8*	*85.8*	*95.0* (1)	*85.1*
Germany	*27.0*	*15.2*	*53.6*	*37.2*	*62.0* (1)	*40.7*
All industrial countries	−39.1	−51.4	0.6	−18.1	−20.3	−38.9
Fuel-exporting countries	67.4	3.0	14.4	−37.9	40.6	−11.9
Other developing countries	−21.9	−26.9	−6.3	−9.2	−6.7	−7.7

Source: IMF.
(a) Trade balance (fob-fob). — (b) Current account balance. — (1) Bank of Italy estimates.

cent in 1987. Their current account deficits should also increase sharply, as well as their ratio of debt servicing to exports, for which an all-time peak of 30 per cent is forecast.

In view of the persisting financial difficulties in many debtor LDCs, the IMF and the World Bank, on the occasion of their Annual Meeting in Washington at the end of September, decided to keep the limits for access to IMF funds unchanged for 1988. Following upon the provisional approval given by the United States, the prospects of increasing the capital of the World Bank, possibly by between 40 and 80 billion dollars, appear brighter. Negotiations to enhance the IMF's Structural Adjustment Facility for subsidized loans to the poorest countries are continuing, although agreement does not appear imminent and may indeed be delayed in the event of a decision to move quickly towards the increase in the World Bank's capital.

International financial markets

After three years of strong expansion, the first half of 1987 saw a fall in activity on the international capital market: total gross financing amounted to 150.2 billion dollars against 157 billion in the first half of 1986 (Table 3). This reversal of trend may be ascribed above all to the weakness of demand, which reflected growing uncertainty about the course of exchange rates between the leading currencies and strengthening expectations of a rise in interest rates.

Recourse to the bond market during the first six months of this year amounted to 102 billion dollars, representing a decline of 8 per cent compared to the same period in 1986. New issue activity was characterized by three particular features: a collapse in the issue of floating-rate notes; a marked reduction in the share of dollar issues; a sustained growth of bonds linked to shares (convertible bonds and bonds with warrants).

The floating rate note (FRN) sector, in which issues plunged to 5 billion dollars from 17.9 and 33.3 billion in the first and second halves of 1986 respectively, was affected by the rapid fall in prices on the secondary market in December 1986. This development was in turn ascribable to intensified competition among the financial intermediaries, which had led to over-aggressive pricing policies. By contrast, issues of bonds linked to shares, encouraged by bullish trends in

Table 3

International capital markets

	1985	1986	1986 H1 (6)	1987 H1
		(billions of dollars)		
Gross bond issues (1)	169.0	228.1	111.4	101.6
of which: floating rate	*58.7*	*51.2*	*17.9*	*5.0*
Syndicated loans (2)	61.1	63.2	28.9	37.4
Back-up facilities (3)	48.9	30.0	16.7	11.2
Total gross lending	279.1	321.4	157.0	150.2
		(percentage)		
Memorandum item:				
% breakdown by borrowers				
OECD countries	82.4	89.0	87.7	85.0
Developing countries	9.9	6.0	7.0	10.0
of which: oil-exporting countries (4)	*1.7*	*1.5*	*2.0*	*5.9*
Other	7.7	5.0	5.3	5.0
Currency composition of gross bond issues (5)				
US dollar	53.9	53.5	....	35.3
Yen	9.6	10.4	....	17.6
Deutschemark	8.5	8.0	....	9.2
Swiss franc	11.3	10.9	....	9.8
Pound sterling	3.9	4.5	....	8.9
ECU	5.3	3.4	....	5.1
Other	7.5	9.3	....	14.1

Source: OECD.
(1) Euromarket issues plus foreign issues in domestic markets. — (2) Announced medium and long-term Eurocredits and foreign loans. — (3) Lines of credit granted in connection with the issue of securities. — (4) Including Mexico. — (5) Expressed in dollars at constant rates of exchange (end-1986). — (6) Due to changes in the reference base, half-yearly figures at constant rates of exchange for currency composition are not available for 1986.

the leading markets, increased substantially, going up from 11.6 billion dollars in the first half of 1986 to 17.2 billion in 1987.

The syndicated credit market also showed signs of a moderate recovery, reversing a trend of several years. Gross financing amounted to 37.4 billion dollars. One factor underlying this recovery is that quality debtors have returned to syndicated loans as an alternative to raising funds on the FRN market. In contrast, both back-up facilities and Euro-commercial paper recorded declines.

The first half of 1987 saw a number of new developments in the LDC debt crisis.

The Italian economy and the balance of payments

Italy's economic situation was characterized in the first half of the year by the disappearance of disinflationary impulses from abroad and robust growth in domestic demand and output.

The increase in households' purchasing power stemming from the previous year's improvement in the terms of trade, together with a rise in disposable income owing to a cluster of collective bargaining contract renewals, resulted in a sharp expansion of consumer spending, especially for durable goods. The expansion of gross fixed investment was more moderate, although investment in machinery, equipment and transportation equipment showed high growth rates.

The particularly buoyant pace of domestic economic activity occurred in an international context marked by declining demand not only in the United States and Japan but also in France and Germany, Italy's two largest trading partners. These sharp cyclical divergences, combined with the worsening of Italy's competitive position in the second half of 1986, led to a strong increase in imports and a contraction of exports. The effects on the balance of trade were amplified by the pick-up in world oil prices, and the trade deficit (on a customs basis) rose in the first half to 9.1 trillion lire, as against 6.7 trillion a year earlier.

The halt in the decline of the dollar and the reversal of trend in oil prices also had an impact on inflation. Wholesale prices began again to show rises on a twelve-month basis as from the start of the year, and there was a significant acceleration in the pace of industrial producer price increases. These latter rose faster than production costs, while the average unit value of exports remained at the level reached in mid-1986. Consumer price inflation stabilized at a rate of just over 4 per cent, thanks in part to the usual lag with which producer price variations are transmitted to retail prices and in part to a more favourable movement in the cost of the productive factors used in the distributive sector. Italy's inflation differential with the rest of the OECD continued to narrow gradually, from 3.9 percentage points in the first quarter of 1986 to 1 point in the second quarter of 1987.

The expansion of real output exerted very little impact on employment. Of particular significance, however, was the reduction in the number of hours paid by the Wage Supplementation Fund; such payments have been declining steadily since early 1985. In view of a further increase in the labour supply, owing partly to demographic trends and partly to a higher women's participation rate, there was a further rise in the unemployment rate. Moreover, the contrast between the Centre-North, where the rate is steady or even slightly diminishing, and the South, where it is still rising considerably, became more pronounced.

Domestic demand and industrial output

Real output expanded at a rapid pace in the first half of the year, fueled above all by domestic demand. The fastest-rising component of demand was household consumption, which expanded at a high rate as a result of increasing disposable income stemming in part from new collective bargaining contracts but also in part from the strong improvement in the terms of trade in 1986, whose effects were felt most strongly in the first half of 1987. Households' increased purchasing power was utilized especially for consumer durables and semidurables, spending on which rose by 8 per cent with respect to the first half of 1986. The unsatisfactory level of economic activity abroad, by contrast, was reflected in a decline in exports, caused in part by a worsening of Italian competitiveness towards the end of 1986 chiefly as a result of the depreciation of the dollar and the pound. Gross fixed investment showed some recovery, but the overall change conceals markedly divergent movements among the principal components. A considerable rise in investment in plant and equipment contrasted

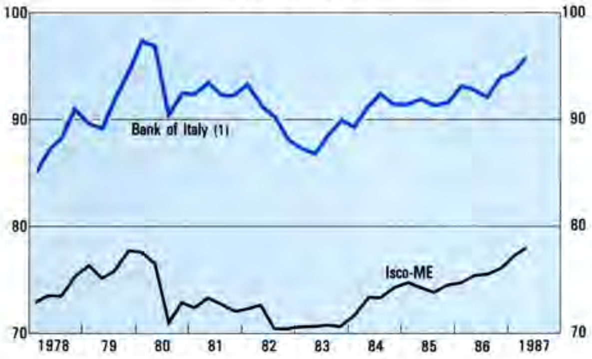
Capacity indicators

For many years it has been recognized that the degree of utilization of existing plant and equipment, or productive capacity, is a variable of fundamental importance in the determination of inflation, foreign trade, and investment. Yet its correct measurement is very difficult, because of the practical impossibility of directly observing the productive potential of industry. A series of techniques have therefore been devised to yield approximate measures of productive capacity. The two most widely used are the Wharton method, based on the interpolation of output indices, and firm-by-firm surveys, conducted in Italy by Isco.

Figure 1

Capacity utilization rates

(percentages)



(1) Wharton method.

Looking at the behaviour of the two indicators in the eighties (Figure 1), we can observe a striking similarity in their movement, with a difference in level that can be attributed to the different methods of calculation. Both indices show a cyclical peak in industrial capacity utilization in the first quarter of 1980 followed by a gradual decline up to the end of 1983. From that time onwards there has been a recovery, quite gradual until mid-1986 but thereafter accelerating sharply. In the first half of 1987, according to Isco, capacity utilization returned to the 1980 peak. The Wharton-method index suggests that we have not yet returned to that record level of capacity utilization, though the difference in question is now much reduced. On the basis of both measures, moreover, it is evident that the phase of industrial restructuring came to an end in 1983, and that from then onwards productive capacity has been expanding once again. But the rate of capacity growth is still very moderate and considerably below that prevailing during the seventies.

Additional information can be obtained from the analysis of the qualitative inquiry made alongside Isco's quantitative survey. Firms are asked whether their capacity is sufficient to handle expected demand for the coming twelve months. This indicator (Figure 2) appears to confirm the findings of the Wharton-method index, in that the proportion of firms finding their productive capacity more than sufficient is still greater, though just barely, than levels reached in 1980.

Therefore, in spite of the different methodologies used, the three aforementioned indicators lead essentially to the same conclusions about the cyclical phase of the economy in the first half of this year. On average in Italian industry, the degree of capacity utilization rose notably, pointing to possible strains on the goods market.

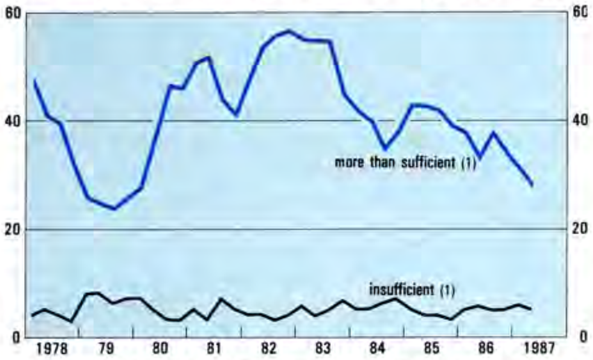
with a stationary level of construction investment. The growth in plant and equipment investment can be attributed partly to the continuation of the process of renewal and automation, which has marked Italian industry in the eighties. It also reflected very favourable conditions of profitability, on average, as well as the significant reduction in margins of unused capacity (see insert). The stagnation in building, by contrast, bears witness to the structural crisis of the sector stemming from difficulties of the housing industry and delays in the execution of public works projects.

The buoyant growth of domestic demand stimulated a substantial increase in industrial activity (Figure 5). In the first six months, on a corrected and seasonally adjusted basis, output was 3.0 per cent higher than in the second half of

Figure 2

Adequacy of productive capacity

(Businessmen's responses to Isco-ME survey; percentages)



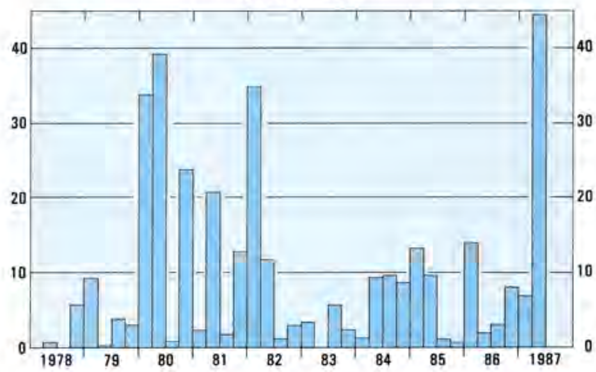
(1) Assessment based on expected demand over next 12 months.

In addition to looking at average data, however, an assessment of the cyclical situation in industry must take into account the extent and the importance of any sectoral bottlenecks. In practice, a given degree of average capacity utilization may correspond to evenly spread pressures in the various sectors or, the other way round, to bottlenecks in some and substantial idle capacity in others. Figure 3 presents a simple diffusion index of sectoral bottlenecks, constructed by counting the number of series that peak in each quarter (Wharton method). To allow for the differing importance of the various sectors, the peaks are weighted according to the importance of their respective sectors in the overall industrial production index. This is an approximative gauge, but it does give a rough idea of the degree of supply-side constraint in the market for manufactures. Note that for the second quarter of 1987 the index is significantly higher than it was in 1980, with more than 40 per cent of the sectors surveyed having reached full capacity utilization. Even allowing due caution, given the provisional nature of capacity estimates for the most recent periods, the chart points to a strong differentiation in the degree of capacity utilization in the various industrial sectors. Such a situation, even apart from the conditions prevailing on average, can have significant macroeconomic effects, stimulating imports and contributing to an aceleration of industrial prices.

Figure 3

Extent of sectoral bottlenecks

(percentages)



Source: Based on Istat data.

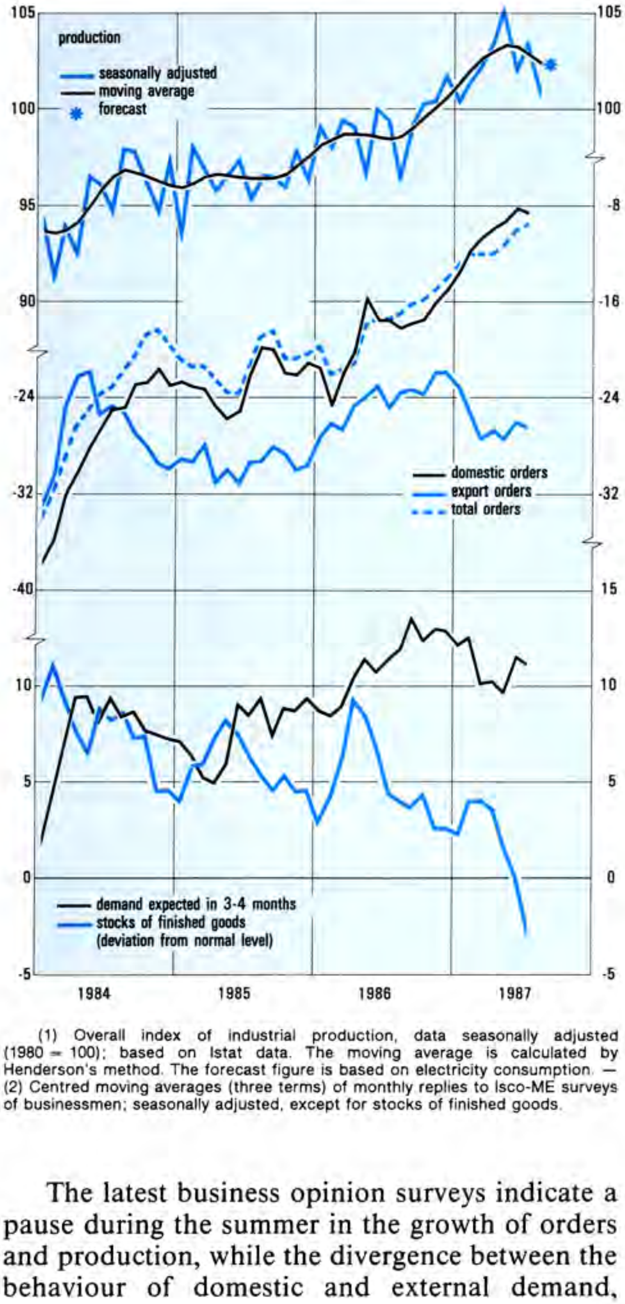
1986 and 3.8 per cent above the first half. The industrial production index registered new peaks.

The expansion was not uniform. Some sectors recorded very rapid growth (more than 10 per cent for office machinery and data processing equipment, precision instruments, and wood and furniture), while others actually suffered a contraction (metal minerals, shoes, clothing, hides and leather). This contrasts sharply with the prevailing pattern in earlier cycles, when the gains tended to be spread more evenly over all industrial sectors.

The rapid increase in output caused a rise in capacity utilization, which for the first time in the current expansion neared the level attained in early 1980, despite the gradual enlargement of productive potential. Here again the pattern is very uneven, with some sectors already producing at full capacity and others still having substantial slack. Compared to the cycles of the recent past, it would appear that increasing difficulty is emerging in adjusting domestic industrial production to the changing composition of aggregate demand.

Figure 5

Industrial output (1), **demand and stocks** (2)



(1) Overall index of industrial production, data seasonally adjusted (1980 = 100); based on Istat data. The moving average is calculated by Henderson's method. The forecast figure is based on electricity consumption. — (2) Centred moving averages (three terms) of monthly replies to Isco-ME surveys of businessmen; seasonally adjusted, except for stocks of finished goods.

The latest business opinion surveys indicate a pause during the summer in the growth of orders and production, while the divergence between the behaviour of domestic and external demand, which became more marked in the first part of the year, appears to have stabilized. Business expectations for the next two to three months remain favourable, while stocks of finished goods are lower than normal.

Employment, labour costs and prices

Despite the improved economic climate, the latest labour force surveys reveal a worsening of the imbalance between labour supply and demand. Employment was unchanged in the first half of the year, but the labour force was 200,000 larger than in the first half of 1986.

The demand for labour varied greatly from sector to sector. On the one hand, employment declined in manufacturing, in construction and in agriculture (by 200,000, 200,000, and 90,000, respectively). On the other hand, the demand for labour increased in the services sector, both private and public.

The employment trend is less unsatisfactory if changes in Wage Supplementation payments are taken into account. In the first six months the number of hours paid from this Fund diminished by over 20 per cent. With the economic upswing, industrial firms have responded by increasing their utilization of labour, mainly by recalling temporarily inactive workers receiving payments under Wage Supplementation arrangements. Adjusting the figures to reflect this, the contraction in industrial employment is revised to 130,000, not the 200,000 indicated by the labour force survey. As to the composition of Wage Supplementation benefits, the share accounted for by special benefits declined, but it remains above 80 per cent.

The labour supply continued to expand in the first half of the year, owing to the growth of the working-age population and to increasing participation by women. The surveys show a change in the composition of unemployment, with a sharp rise in the number of "other job seekers", the component of the labour force that is least stable and most sensitive to cyclical changes. By contrast, the phase of rapid growth of young people seeking initial employment appears to have come to an end. The overall unemployment rate rose from 11.2 per cent in

1986 to 11.9 per cent in the first half of 1987. Adjusting with data for Wage Supplementation, however, the rise is significantly less, i.e. from 12.5 to 12.8 per cent. Together with the worsening of overall labour market conditions, the disparity between the Centre-North and the South was accentuated (Table 4). In the Centre-North there was an actual decline in the unemployment rate, albeit a very modest one, but in the South unemployment rose to nearly 20 per cent of the civilian labour force. The gravity of the situation is demonstrated by the fact that the South is experiencing not only a rapid increase in the labour force but also a contraction of employment, very substantial in agriculture and industry, which a modest expansion in the services sector is unable to offset.

Table 4

Unemployment and participation rates by region

	North	Centre	South	Italy
	Unemployment rate			
1983	7.7	9.1	13.8	9.9
1984	8.1	9.1	13.6	10.1
1985	8.0	9.2	14.2	10.3
1986	8.0	9.7	16.5	11.1
1987 (1)	7.9	9.7	18.6	11.8
	Participation rate			
1983	43.4	41.4	36.7	40.6
1984	43.6	41.8	36.5	40.7
1985	43.5	42.3	37.0	40.9
1986	44.1	42.6	37.7	41.5
1987 (1)	44.1	42.4	37.9	41.5

Source: Based on Istat data, Labour Force Survey.
(1) Average for January-April.

Productivity in manufacturing industry increased sharply in the first half (gaining 4 per cent compared to the first half of 1986), thanks to the expansion of demand and the continuing restructuring and rationalization of industry (Table 5).

Table 5

Total unit costs and output prices in manufacturing

(% changes on year-before period)

	1985	1986	1987		
			Q1	Q2	H1
Unit labour cost (1)	8.7	3.7	4.3	6.0	5.2
Productivity (1)	2.7	4.3	3.9	4.7	4.3
Labour cost per employee (1)	11.6	8.1	8.3	11.0	9.7
Total input costs	7.0	−2.8	−2.7	0.4	−1.1
Domestic inputs	7.6	−1.1	−0.7	2.9	1.1
Imported inputs	6.3	−6.9	−7.1	−4.0	−5.6
Total unit costs	7.6	−0.4	0.0	2.6	1.3
Output prices	7.5	3.9	3.1	3.5	3.3
Average unit export prices	8.1	−0.8	−0.3	0.9	0.3

Source: Based on Istat data.
(1) Net of Wage Supplementation.

Labour costs per employee increased even more, despite a decreasing contribution from the *scala mobile*, rising by 10 per cent in relation to the first half of 1986. This was attributable primarily to a bunching of the effects of new contractual agreements in the principal industrial sectors and secondarily (about 1 per cent) to a reduction in the share of social contributions financed by the state. With this latter measure there was also a change in the method by which such fiscal relief is calculated. Rather than a percentage of earnings and differentiated by sex, this relief is now set as a fixed amount, the same for all employees.

The sharp gain in productivity held the rise in unit labour costs to 5.2 per cent. Thanks to the favourable movements of prices for the other factors of production, overall unit costs increased by about 1 percentage point, following a 2-point decline in the previous half-year.

However, the rise in production costs and the strong growth of demand halted the process of disinflation, which had proceeded steadily throughout 1986. The annual rate of increase for manufactures prices thus rose from 3.1 per cent at the end of 1986 to 3.7 per cent in July. Viewed in terms of the overall wholesale price index (which includes energy products), the reversal in the disinflationary trend is even more striking. While in December 1986 the twelve-month change was −2.5 per cent, the beneficial effect of the oil countershock weakened progressively during the first quarter of 1987, with the twelve-month decline moderating to −0.4 per cent. By the second quarter prices were rising again, the twelve-month rate reaching 2.4 per cent in June and 4.1 per cent in August.

Turning to retail prices, the waning effects of the oil countershock and the pressures of aggregate demand were less pronounced. The rate of consumer price inflation rose by just half a percentage point between December 1986 and August 1987. The pickup in consumer price inflation was due in part to decisions regarding administered prices. Owing primarily to higher public service charges (electricity and television), the twelve-month increase for all price-administered goods and services rose from 4.0 per cent in April to 4.9 per cent in August.

The rate of increase in consumer prices speeded up further in September, principally because of the Government's decision to raise the prices of petroleum products and increase the VAT rate on consumer durables.

Taking account of the effects of this package on inflation, as partly compensated by the cooling off of aggregate demand and the continuing favourable trend of unit production costs, the rise in consumer prices on average for the year will be about 5 per cent, nearly one percentage point higher than the target inflation rate.

The balance of payments on current account

Italy's balance of payments on current account recorded a deficit of 4.8 trillion lire in the first six months of the year, or 1.0 trillion more than in the first half of 1986. The deficit on merchandise trade increased by about 3 trillion lire, but this was partially offset by an improvement in the balance on services and transfers (Table 6). Seasonally adjusted, the current account deficit amounted to more than 2 trillion lire, representing a very sharp reversal from the 7-trillion lire surplus registered in the second half of 1986.

Table 6

Current account of the balance of payments

(balances in billions of lire)

	1986	1986 H1	1987 H1
Goods (fob-fob)	**5,850**	**−1,201**	**−4,063**
Foreign travel	10,579	4,389	4,411
Investment income	−7,466	−4,714	−4,576
Public transfers	−4,451	−2,241	−1,378
of which: vis-à-vis EEC	*−1,939*	*−964*	*748*
Other	1,565	−34	809
Total	**6,077**	**−3,801**	**−4,797**

The larger trade deficit is entirely accounted for by the unfavourable movement of import and export volumes. Compared to the first half of 1986, the volume of imports expanded by 7.6 per cent and that of exports contracted 3.7 per cent, while the terms of trade improved by 7.8 percentage points (Table 7). In relation to the second half of 1986, however, the terms of trade worsened by 1.4 percentage points, thus accentuating the deterioration of the merchandise trade situation compared with that period.

As variations in export prices were relatively modest, the change in the terms of trade reflected the movement of crude oil prices and of the lira's exchange rate with the dollar. The import price of oil, c.i.f., declined from $19 to $12 a barrel between the first and the second half of 1986 but then rose to $17 on average in the first half of this year (Figure 6). The appreciation of the lira against the dollar came to a virtual halt at the outset of 1987, with the exchange rate stabilizing at about 1,300 lire. Nonetheless, viewed as a change over twelve months, the exchange rate continued to reflect an appreciation of the lira, which accentuated the decline in the lira price of oil in relation to the first half of 1986 and limited its increase with respect to the second half.

In cyclical terms, the changes in the average unit prices of exports, and more importantly in import prices, show that the deterioration in the terms of trade got under way in January 1987. This was a result principally of a further rise in crude oil prices, which by March had stabilized at about $18 a barrel.

Table 7

Foreign trade: values, prices, volumes and principal determinants

(percentage changes)

	1986 H1 / 1985 H1	1987 H1 / 1986 H1
Exports		
Value	3.8	−4.0
Average unit value	−3.3	−0.3
Volume	7.3	−3.7
Imports		
Value	−8.7	−0.7
Average unit value	−14.0	−7.7
Volume	6.2	7.6
Aggregate demand	2.9	3.5
Capacity utilization	1.8	2.2
World demand (1)	1.8	2.6
Competitiveness (2)	−1.4	4.1
Terms of trade (3)	12.8	7.8

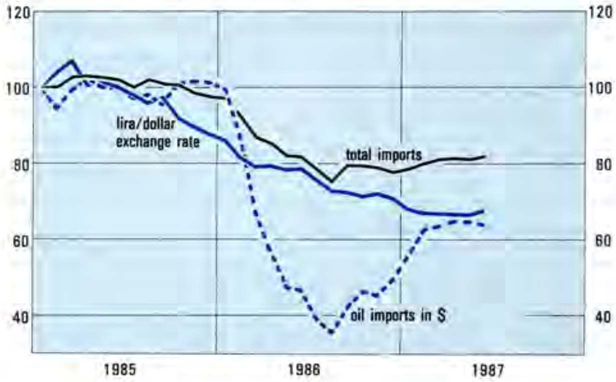
Source: Based on Istat and IMF data.
(1) Exports of the industrial countries, January-April. — (2) In terms of wholesale prices; a minus sign indicates a gain. — (3) A minus sign indicates a deterioration.

The contraction in the volume of exports, already in evidence in the final months of 1986, occurred against a background of sluggish world demand: exports by all the industrial countries were ahead by only 2.6 per cent in the first four months of 1987. As Italy's domestic demand was expanding faster than that of the other leading industrial countries (Figure 7), Italian entrepreneurs were inclined to give more attention to the domestic market than to export sales. In this context it appears that exports were held back, especially in the second quarter, by the high degree of capacity utilization. Moreover, the difference in cyclical phasing, which had become substantial by April-June, evoked a strong expansion in the volume of imports, which went up by about 6 per cent in these three months alone.

Figure 6

Average import unit values and principal determinants

(indices: January 1985 = 100)



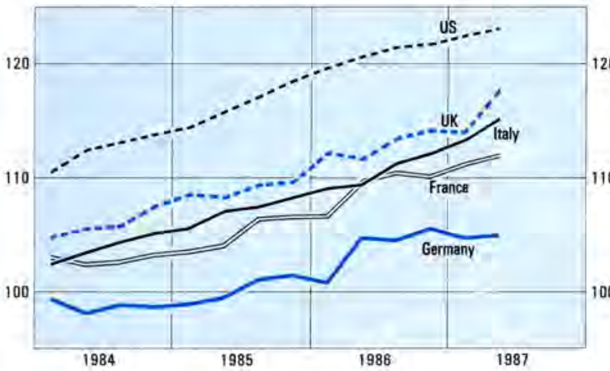
On average for the first half, the volume of Italy's imports of energy raw materials held at about the same level as in the corresponding period of 1986. This was attributable in part to the drawing down of stockpiles built up late in 1986, when expectations of higher energy prices were widespread. Subsequently the stabilization of oil prices eliminated the fluctuations in energy purchases. All the other import components recorded higher-than-average rates of expansion in volume terms. There was exceptionally fast growth not only in imports of final investment goods (16 per cent), reflecting Italy's heavy external dependency in terms of its capital formation process, but also of final consumer goods (13 per cent). The average unit price of manufactures imports declined 3 per cent, in line with the price declines for these goods on world markets. Domestically, by contrast, the prices of manufacturing output rose by 3.3 per cent in a market featuring supply limitations and buoyant domestic demand.

The lagged effects of Italy's loss in competitiveness in the course of 1986 played a part in curbing export flows in the first half of 1987. Measured in terms of the wholesale manufactures prices of Italy's thirteen leading trading partners, the country's competitiveness, despite a recovery by about 2 percentage points over the first six months of 1987, remained 4.1 per cent lower than that in the first half of 1986. The main factor in the deterioration was the appreciation of the lira's real exchange rate with the dollar. The loss of competitiveness with respect to the rest of the EC between the two periods was, at 1.9 per cent, more limited. The sharpest changes were recorded vis-à-vis the United Kingdom and Ireland (declines of over 10 per cent in both cases), while the losses in relation to France and Belgium were less substantial, and there was a slight gain of 0.5 per cent against Germany.

Figure 7

Domestic demand

(indices: 1980 Q1 = 100)



The trade deficit abated in July and August, even on a seasonally adjusted basis. However, according to Istat customs data the merchandise trade deficit, with imports valued c.i.f., amounted in the first eight months of 1987 to more than 7 trillion lire, reflecting a rise of imports in nominal terms by 2.8 per cent and a contraction in exports by 1 per cent.

Compared to the first eight months of 1986, the worsening of the merchandise trade deficit is the net result of an improvement of 2.7 trillion lire in the balance of trade in energy products and a deterioration of 6.4 trillion in the non-oil balance. The most unfavourable changes were those shown by engineering products and textiles, for which Italy's surpluses diminished, and by transport equipment (Table 8).

The movement of the merchandise trade balance reflected a deterioration in trade vis-à-vis all the major areas with the exception of OPEC and Eastern Europe. In the first half of 1987 Italy's trade surplus with the United States narrowed from 3.1 to 2.3 trillion lire. The deficit in relation to its EC partners increased from 3.7 to 5.5 trillion lire, reflecting a deterioration vis-à-vis Germany, the UK, Belgium-Luxembourg and Greece that was only partly offset by larger trade surpluses towards Portugal and especially Spain (from 85 to 717 billion lire) (Table 9).

The balance on services and unilateral transfers improved by more than 2 trillion lire compared with the first half of 1986. The balances on "foreign travel" and "income from capital" were about the same as in the year-earlier period, while the deficit on public transfers diminished and the surplus on the residual item "other invisibles" increased.

Foreign exchange earnings from tourism grew by 8.7 per cent. Adjusted for consumer price inflation of 4.4 per cent, this reflects an increase in real expenditure by foreign travelers in Italy of 4.1 per cent. Tourism abroad by Italian residents expanded much more sharply, with outlays exceeding those in the same months of 1986 by 30 per cent. The growth of Italian tourism abroad, observable for several years now and especially marked in the last twelve months, was stimulated by the increase in households' disposable income. It has also been favoured by the progressive liberalization of foreign exchange regulations in this sphere since May 1983.

Italy's contributions to the EC budget increased with the rise in VAT revenues, on the basis of which they are calculated. However, the contributions were outweighed by increased receipts bringing the balance on transfers vis-à-vis the Community into surplus. Net transfers to non-EC international organizations rose from 1,262 to 2,113 billion lire, reflecting Italy's stronger commitment in the field of multilateral cooperation and development assistance.

Merchandise trade by product group

Table 8

(billions of lire)

	EXPORTS (fob)		IMPORTS (cif)		BALANCE	
	January-August		January-August		January-August	
	1986	1987	1986	1987	1986	1987
Agriculture, forestry and fishery products	2,752	2,585	8,280	8,495	−5,528	−5,910
Energy products	2,954	2,409	17,817	14,603	−14,863	−12,194
Ferrous and non-ferrous metals	4,712	4,058	9,136	8,654	−4,424	−4,596
Minerals and non-metallic products	3,768	3,852	1,651	1,781	2,117	2,071
Chemical products	7,830	7,837	12,389	12,601	−4,559	−4,764
Engineering products	30,562	30,892	18,579	21,247	11,983	9,645
Transport equipment	8,363	8,857	9,007	10,423	−644	−1,566
Food, beverages and tobacco products	3,765	3,668	8,875	8,991	−5,110	−5,323
Textiles, leather and clothing products	20,268	19,855	6,043	6,820	14,225	13,035
Other	10,865	10,913	7,477	8,452	3,388	2,461
Total	**95,839**	**94,926**	**99,254**	**102,067**	**−3,415**	**−7,141**

Source: Istat.

Merchandise trade by country and area

Table 9

(billions of lire)

	EXPORTS		IMPORTS		BALANCE	
	January-June		January-June		January-June	
	1986	1987	1986	1987	1986	1987
EEC	**38,691**	**39,635**	**42,426**	**45,141**	**−3,735**	**−5,506**
Belgium-Luxembourg	2,420	2,446	3,670	4,122	−1,250	−1,676
France	11,595	11,649	11,287	11,568	308	81
Germany	12,856	13,386	15,287	16,694	−2,431	−3,308
Netherlands	2,410	2,171	4,664	4,600	−2,254	−2,429
United Kingdom	5,156	4,944	4,008	4,246	1,148	698
Ireland	191	177	314	344	−123	−167
Denmark	693	633	777	819	−84	−186
Greece	1,101	1,004	554	769	547	235
Spain	1,722	2,437	1,637	1,719	85	718
Portugal	547	788	228	260	319	528
United States	**7,833**	**6,540**	**4,762**	**4,274**	**3,071**	**2,266**
Japan	**854**	**1,051**	**1,627**	**1,703**	**−773**	**−652**
Canada	**950**	**814**	**440**	**517**	**510**	**297**
Estern Europe	**2,087**	**1,965**	**3,330**	**3,008**	**−1,243**	**−1,043**
USSR	1,131	1,178	1,806	1,682	−675	−504
OPEC	**5,202**	**3,636**	**9,189**	**6,297**	**−3,987**	**−2,661**
Algeria	875	492	1,733	1,145	−858	−653
Saudi Arabia	1,253	970	1,461	888	−208	82
Libya	723	719	2,037	1,382	−1,314	−663
Iran	555	280	876	754	−321	−474
Other	**17,165**	**16,209**	**17,752**	**18,034**	**−587**	**−1,825**
China	683	612	530	611	153	1
Total	**72,782**	**69,850**	**79,526**	**78,974**	**−6,744**	**−9,124**

Source: Istat.

Capital movements and the exchange rate

In the first six months of 1987, contemporaneously with a current account deficit of 4.8 trillion lire, Italy's official reserves increased by 2.4 trillion net of adjustments for exchange rate changes and the revaluation of gold. During the same period the effective exchange rate of the lira fell by 2 per cent, as a result of a 3.9 per cent decline in relation to the other EC currencies. A total of 4.2 trillion lire flowed in through banking channels, while the other components, including errors and omissions, accounted for net inflows of 3.0 trillion lire (Table 10).

Table 10

Capital movements
(billions of lire)

	1986	1986 H1	1987 H1
Inward investment	−40	4,517	331
Outward investment	−7,254	−3,089	−2,920
of which: investment funds (1)	*−3,056*	*−1,527*	*−1,723*
Foreign loans	4,926	1,815	5,128
Italian loans	−1,825	−1,074	−1,280
Trade credits, other capital flows and errors and omissions	−2,073	1,433	1,737
Total non-bank capital flows	**−6,266**	**3,602**	**2,996**
Bank capital flows	**6,454**	**7,393**	**4,185**
Memorandum item:			
Change in official reserves	3,489	5,203	2,384

(1) Changes in value of foreign securities in Italian investment fund portfolios.

However, a considerable run-down of reserves began in May and continued until the adoption of the foreign exchange and credit measures of mid-September. In July and August official reserves shrank by 6.2 trillion lire as a result of a contraction in the banks' net foreign liability position by 4.6 trillion lire and of an overall deficit of 1.6 trillion.

In the course of the year the financial components of the balance of payments have gone through three distinct phases, which have influenced both the management of the exchange rate and the movement of official reserves.

From January to April the main components of capital movements generated large net inflows, in line with the high real yields offered by the Italian financial market. Share prices remained essentially stable and expectations of exchange-rate stability followed in the wake of the EMS realignment in January.

Borrowing abroad by Italian residents, net of repayments, exceeded 5.0 trillion lire, which amounted to about the same as in the whole of 1986. This high figure is accounted for partly by an increase in liberalized transactions and partly by a sizable operation to refinance about 1.0 trillion lire of Polish debt by means of a loan taken out abroad. Foreign financial and direct investment in Italy gave rise to total net inflows of more than 2.0 trillion lire, or about the same as in the first four months of 1986. Banks' foreign indebtedness increased by 3.0 trillion lire as a consequence of strong demand for foreign-currency loans. This occurred in a general environment of expanding credit demand and was encouraged by the persistence of a covered differential of about 2 percentage points in favour of the lira.

Only Italian investment abroad gave rise to net outflows. Net of disinvestment, these amounted to between 400 and 500 billion lire a month, or about the same as in the first six months of 1986. More than half the total was accounted for by securities purchases by Italian investment funds.

In mid-May a number of exchange liberalization measures were enacted. These included the abolition of the remaining non-interest-bearing deposit against the purchase of foreign securities, an adjustment of the maximum foreign exchange allowance for tourism to levels in effect in the OECD, and an enlargement of time limits on foreign currency accounts. The requirement of foreign currency financing of early payment for imports was also abolished, and foreign exchange procedures were streamlined.

The abolition of the deposit requirement permitted the inception of a process of currency diversification on the part of resident investors.

The September foreign exchange measures

On 13 September 1987 a package of foreign exchange and credit measures was enacted. The purpose of these measures was, on the one hand, to combat pressures on the foreign exchange reserves, and the exchange rate and, on the other, to bring the growth of the banks' lira lending back within the limit necessary to sustain the development of production and real investment.

The measures, which remain in effect through March 1988, entail:

1. *a ban on the early repayment of outstanding import and export loans in foreign currency;*
2. *an obligation to finance in foreign currency, to the extent of 100 per cent, anticipatory payments for imports and, to the extent of 75 per cent, postponed receipts for exports;*
3. *permission to postpone the collection of export settlements only if the amounts are financed in foreign currency and a prohibition on payment for imports earlier than the contractually agreed date;*
4. *the shortening of the periods for using foreign exchange held in external accounts: from 120 to 30 days for foreign exchange acquired directly abroad; from 60 to 15 days for that acquired indirectly; and from 120 to 7 days for the proceeds of foreign currency export credit;*
5. *the shortening from 30 to 15 days of the duration of foreign currency suspense accounts.*

Provisional data indicate that purchases of foreign securities gave rise to net outflows of 300 billion lire in the second half of May, 500 billion in June and 1.0 trillion in both July and August. As was the case prior to the abolition of the deposit, these outflows were connected with purchases abroad made by investment funds: 250 billion lire in May, 400 billion in June, 600 billion in July and 700 billion in August. By the end of August the funds' portfolio holdings of foreign securities amounted to 10.5 per cent of their net assets. Higher percentages were found only in a few recently-formed funds of comparatively limited total worth. In May and June the other major financial flow items began to record small net outflows.

As the summer began, therefore, the financial side of the external payments position was characterized by a tendency towards capital outflows, albeit not large enough to cause turbulence in the foreign exchange market. Concurrently, from the real side, the balance of trade was worsening as a result not only of deteriorating terms of trade but also, indeed primarily, of unfavourable developments in import and export volumes.

In July and August capital outflows intensified. Apart from the aforementioned portfolio investments abroad, medium and long-term financial transactions led to outflows of 1.0 trillion lire in each of the two months. Speculative pressures were generated by payments leads and lags, large-scale repayments of foreign currency loans, and an increase in foreign currency deposits as a result of the purchase of foreign exchange for future payments and the postponement of the conversion of export proceeds into lire. The traditional operation (advancing payment and postponing collection with respect to customs transactions) was thus joined by operations aimed at advancing the demand for foreign currency against lire, and delaying the supply, in relation to the settlement date. The resulting contraction of the banks' net external liability position was very substantial indeed, and it continued into September, right up to the enactment of the package of exchange restrictions on 13 September (see insert). Subsequently the speculative positions were liquidated, generating a large return flow of reserves amounting to 9 trillion lire through mid-October, thanks in part to the floating of a one-billion dollar Government bond issue on the international market as part of a strategy of debt diversification. At the same time, the exchange rate of the lira regained ground against all the major currencies.

Between end-December 1986 and end-September 1987, the nominal effective exchange rate of the lira depreciated by 2 per cent, this being the net result of a 1.9 per cent improvement against the dollar and a 3.5 per cent depreciation against the Community currencies. The changes in the exchange rate were confined entirely to the first five months of the year. From the end of May onwards there were only minor variations. Against the EC currencies the slippage of the lira occurred in the first few days of the year, when foreign exchange markets anticipated the realignment of 11 January, and on 8 May, when it depreciated by about 1.5 per cent against the principal Community currencies.

Public finances

The drive to re-equilibrate the public finances that was set in motion in 1986 lost momentum in 1987. The failure to formulate the sectoral measures that were supposed to supplement the Finance Law has resulted in this year's adjustment being insufficient to achieve the objectives set. In the first nine months of 1987 the state sector borrowing requirement net of settlements of past debts was around 2.8 trillion lire up on that of the corresponding period in 1986 (Table 11). It was originally intended that this balance, the growth in which had been halted in 1986, should decrease for the year as a whole by around 10 trillion lire.

Table 11

Borrowing requirements (1)
(billions of lire)

	1985	1986	1987 (2)
State sector			
1st half	60,683	46,183	46,592
	(51,878)	(45,768)	(46,519)
January-September	93,420	82,389	84,745
	(81,460)	(81,847)	(84,654)
Public sector			
1st half	60,644	45,197	48,118

(1) Including settlements of past debts (the figures in brackets are net of the payments made in cash and securities). — (2) Provisional.

The corrective measures introduced towards the end of 1986 and in the early part of this year were intended primarily to boost revenues. They served only to compensate for the gradual drying up of receipts from measures introduced in earlier years and the expansionary trend of some expenditure items, which was accentuated by the effects of labour contract renewals in the public sector.

Compared with the corresponding period in 1986, the borrowing requirement benefited from a series of mainly temporary factors that held back the growth of expenditures and speeded up the rise in revenues. In particular, despite the considerable increase in the public debt, the interest burden remained virtually unchanged, primarily as a result of the cuts made in interest rates the year before; the yield of the duties on oil products rose sharply following the rate increases introduced during 1986 in parallel with the fall in oil prices; the reference to the target inflation rate for the revaluation of pensions in May and November curbed the increase in this expenditure item; the continued growth of economic activity boosted social security contributions and both mainstream and local corporate income tax, as well as reducing outlays on wage supplementation.

The divergence from the course planned for the public finances in 1987 has been most pronounced for current expenditure, which increased in the first half of the year much faster than prices, whereas the aim had been for it to rise at much the same rate. An important factor contributing to this result was the payment on account of arrears in connection with the aforementioned labour contract renewals in the public sector. Partly as a consequence of increases having been backdated to January 1986, the growth in average per capita earnings in 1987 will be close to 12 per cent. Current expenditure also rose as a result of the elimination of the charges for medical tests and laboratory analyses.

The upturn in spending on current account was partly offset, at least in the state sector, by the virtually unchanged level of capital expenditure in the first half of the year, in contrast with the original expectation of an increase paralleling that of GDP.

Revenues expanded through June in line with GDP. In addition to the aforementioned increase in the receipts from duties on oil products, this can be attributed to: a) the ending in September

1986 of the tax-exemption of newly-issued government securities (in the first six months the tax withheld in settlement of liabilities and on account amounted to 500 billion lire); b) the increase in the tax on imputed property income, which produced more than 200 billion of extra personal mainstream and local income tax; c) the increase in the duties on tobacco products, which is expected to raise an extra 400 billion in 1987; d) the reform of the system for granting relief from social security contributions, which involved switching from a pro-rata to a lump-sum basis and making the relief the same for male and female workers, with an expected saving of 1 trillion lire per year; and e) the measures introduced in relation to social security contribution debts, which amount to almost a second condonation following that of 1985. On the other hand, revenues decreased as a result of the decline in payments under the building offences condonation, which amounted to 840 billion in the first half of the year, as against 2.2 trillion in the corresponding period last year.

As in 1986, financial measures made a major contribution towards curbing the borrowing requirement. Specifically, there was a further flow of regions' bank deposits to the centralized Treasury account (around 1 trillion lire through June) and there was a further reduction in the capital invested in state-controlled companies and ENEL in connection with their having been authorized to raise medium and long-term loans, though the related debt service is to be charged to the budget.

With the aim of slowing the growth in both domestic demand and the borrowing requirement, the Government introduced a series of revenue measures in August, September and October (see insert). By boosting receipts by nearly 3.5 trillion lire, these measures should result in the borrowing requirement for the year being on a par with that for 1986. The Government's "Forecasting and Planning Report for 1988" indicates that, for the third year running, the balance will be around 110 trillion lire, with a reduction of one point in relation to GDP (Table 12).

During the first three quarters of 1987 nearly 80 per cent of the state sector borrowing requirement was financed in the market,

Table 12

Selected public finance balances

(billions of lire)

	1985	1986	1987
State sector:			
Borrowing requirement, net of settlements of past debts	110,237	109,586	109,000 (1)
as a % of GDP	(13.7)	(12.3)	(11.2)
Settlements made in cash	2,188	606	200
Settlements made in securities	10,403	—	300
Total borrowing requirement	122,828	110,192	109,500
as a % of GDP	(15.2)	(12.3)	(11.3)
Borrowing requirement net of interest payments and settlements of past debts	46,679	36,061	34,000
as a % of GDP	(5.8)	(4.0)	(3.5)
Public sector:			
Borrowing requirement, net of settlements of past debts	112,270	109,825	112,000 (2)
as a % of GDP	(13.9)	(12.3)	(11.5)
Settlements made in cash	2,188	606	200
Settlements made in securities	5,270	—	300
Total borrowing requirement	119,728	110,431	112,500
as a % of GDP	(14.9)	(12.3)	(11.6)
Borrowing requirement net of interest payments and settlements of past debts	45,061	32,317	33,500 (2)
as a % of GDP	(5.6)	(3.6)	(3.5)

(1) The figures for the state sector are the official forecasts published in the *Relazione Previsionale e Programmatica per il 1988.* — (2) Estimates in line with those for the state sector shown above.

compared with over 90 per cent in the corresponding period in 1986 (Figure 8). All the reduction was in the sale of medium and long-term securities, while the proportion of total financing accounted for by net Treasury bill issues increased, particularly in the third quarter. The reversal of the trend of the balance of payments was accompanied by a considerable increase in central bank financing, both by way of the Treasury's current account with the Bank of Italy and through purchases of securities. The debt of the public sector rose from 793 trillion lire at the end of 1986 to over 880 trillion on 30 September 1987.

Evaluation of the effects of the urgent fiscal measures introduced by Decree Laws 348/1987 and 391/1987 and the Ministerial Decree of 5 October 1987

The measures introduced by Decree Law 348 of 27 August (not ratified) with the aim of curbing the Treasury borrowing requirement and slowing the growth in domestic demand were supplemented by those of Decree Law 391 of 24 September and the Decree issued by the Minister of Finance on 5 October.

As regards direct taxation, the preliminary payments of some taxes were increased for 1987. In particular, the rate for the preliminary payment of withholding tax on bank interest was raised from 90 to 100 per cent of the amount paid on interest accruing in 1986. Corporate bodies' preliminary payments of IRPEG and ILOR were raised from 92 to 98 per cent of their liabilities in respect of income earned in 1986. Finally, the increase to 12.5 per cent in the tax rate for income from new issues of government securities was brought forward by one month and took effect from 31 August. Under Decree Law 556 of 19 September 1986, the doubling of the rate from 6.25 to 12.5 per cent had originally been scheduled to take effect from 30 September of this year.

As regards indirect taxation, on 27 August the VAT on some products was raised, as were the excise duties on oil products. The increase in VAT, which will only last until the end of the year, was implemented by imposing a surtax on the sales and imports of some durable goods normally subject to the 18 per cent rate. The surtax is fixed at 4 percentage points for private cars, furniture and electrical appliances and at 2 points for audiovisual, photographic and optical equipment, which is already subject to a special consumption tax. The increases in the excise duties on oil products affected petrol, diesel fuel, heating oil and liquid natural gas. The duties on petrol and diesel fuel were raised by respectively 50.85 lire per litre and 20.18 lire per kilo.

The fixed stamp duty on various administrative acts was raised on 24 September at the same time as the rate charged on stock exchange contracts was doubled. In turn, the October Decree raised the prices of tobacco products and the related excise duty.

The measures are expected to produce extra revenues amounting to 3,450 billion lire this year, of which 2,150 attributable to direct taxes and 1,300 to indirect taxes.

Extra revenues in 1987

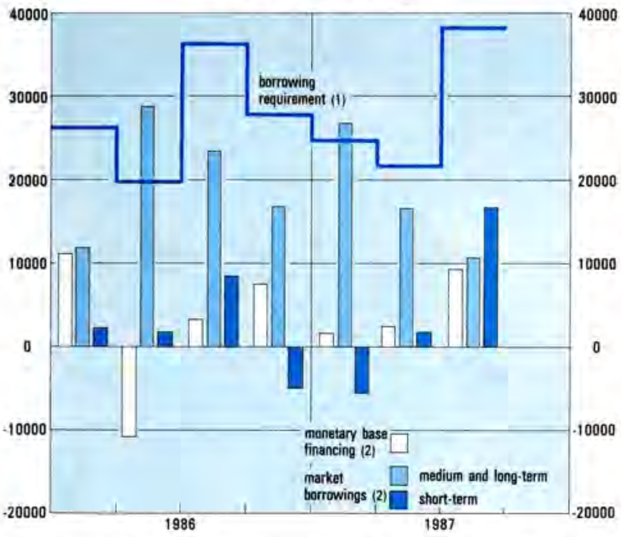
(billions of lire)

Preliminary IRPEG payment	500
Preliminary ILOR payment	350
Preliminary payment of flat-rate withholding tax on interest	1,200
Anticipation of increase in withholding tax on government securities	100
Direct taxes	**2,150**
VAT surtax	250
Duties on oil products	550
Stamp duty and tax on stock exchange contracts	350
Excise duty on tobacco products	150
Indirect taxes	**1,300**
TOTAL	**3,450**

The increase in indirect taxes is expected to have a direct impact on the average annual rate of consumer price inflation in 1987 of around 0.16 percentage points, while the impact on the twelve-month rate in December will be equal to around 0.65 points.

Figure 8

State sector borrowing requirement and its financing



(1) Gross of settlements of past debts. — (2) Excluding Post Office deposits.

State sector revenues and expenditures

In the first half of 1987 the disbursements of the state sector amounted to 188.47 trillion lire, an increase of 6.8 per cent on the corresponding period in 1986 (Table 13). This growth was largely fueled by the rise in current outlays (8.6 per cent), primarily for wages and salaries and transfers to enterprises, households, municipalities and provinces. By contrast, outlays on capital account remained unchanged, while those of a financial nature decreased by nearly 15 per cent.

The 13 per cent increase in wages and salaries was mostly attributable to the advances granted in connection with the renewal of most public employees' labour contracts between January and April. In turn, the increase in pension disbursements was due both to the rise in the number of retired staff and to the progressive application of the improvements foreseen by Law 141/1985.

Net of the amounts refunded by the Bank of Italy, interest expenditure came to 36.65 trillion lire, representing a small decrease compared with the corresponding period in 1986. This can be attributed to the sharp drop in interest rates in 1986 and the early part of this year, which more than offset the effects of the increase in the debt itself. Another factor that contributed to the curbing of expenditure was the reduction in Treasury bill issues through June compared with the first half of 1986, since the related interest is included in the accounts in advance.

Table 13

Main items of the consolidated accounts of the state sector on a cash basis

(billions of lire; changes on year-before period)

	1986 H1	1987 H1	1987
Current expenditure	**152,508**	**165,628**	**8.6**
of which: wages and salaries	27,805	31,425	13.0
pensions	8,129	8,913	9.6
good and services	8,898	10,010	12.5
current transfers	65,190	72,849	11.7
of which to: social security institutions	15,056	15,284	1.5
regions	26,267	29,528	12.4
communes and provinces	10,936	13,946	27.5
households	3,730	4,533	21.5
enterprises	4,697	6,212	32.3
net interest	37,097	36.650	−1.2
Capital expenditure	**15,984**	**16,033**	**0.3**
of which: fixed capital	5,768	5,831	1.1
capital transfers	10,216	10,202	−0.1
Financial items	**7,992**	**6,810**	**−14.8**
of which: investments	2,410	842	−65.1
loans and advances	5,241	4,938	−5.8
Total expenditure	**176,484**	**188,471**	**6.8**

Source: *Relazione trimestrale sulla stima del fabbisogno di cassa*, submitted to Parliament by the Treasury Minister on 17 September 1987.

Current transfers increased by nearly 12 per cent. In particular, those to municipalities and provinces rose by more than 27 per cent. Since the amount of budget appropriations decreased, this outturn was due to treasury operations. In the first half of 1986 the entities in question had made substantial net deposits following the implementation of the centralized Treasury account, while through June of this year they made net withdrawals totaling 2.9 billion lire. The spending of municipalities and provinces in the latter period was pushed up by the effects of the renewal of staff labour contracts, which also affected the appropriations to regions, especially in connection with health service wages and salaries. The large increase in transfers to households was caused by the rise in expenditure on war and disability pensions.

The total amount transferred to social security institutions was unchanged, while that to INPS, net of the items offsetting the fiscalization of contributions, rose from 11.24 to 12.46 billion lire. The volume of contributions increased as a result of the reform of the system of relief and the measures introduced to regularize contributors' positions, which partly offset the drying up of the revenues from the condonation approved in 1985. As regards the disbursement of social benefits, a damping effect was exerted both by the aforementioned adjustment of pensions with reference to the target inflation rate and by the decrease in wage supplementation outlays. Upward pressure came, by contrast, from the payment of another part of the higher pensions foreseen by Law 140/1985. The upturn in outlays is likely to be accentuated in coming months following the biennial revaluation of INAIL annuities and the implementation of the Constitutional Court's ruling on the admissibility of supplementing pensions to the minimum level even when recipients are entitled to more than one.

Among the various items of capital expenditure, both direct investments and transfers were unchanged. As regards the former, the greater activity of the state and the autonomous government agencies was offset by the large fall (from 1.65 to 1.14 trillion lire) in the disbursements of the Southern Italy Development Agency, which was set up at the end of 1986 to replace the commissarial administration of the former Southern Italy Development Fund. Among the capital transfer items, there was a very considerable increase in those to regions (from 2.04 to 3.28 trillion), attributable in large part to the operations of the Savings and Loans Fund. On the other hand, transfers to enterprises decreased from 3.45 to 2.53 trillion.

The reduction in financial funding was primarily in connection with the supply of capital to the state-controlled companies and ENEL. Continuing the policy initiated in 1985 of reducing the direct contribution of capital, transfers to the former fell from 1,500 to 250 billion and those to the latter from 350 billion to nothing. As in 1986, the reduction in government grants was accompanied by the authorization to issue bonds and borrow from the European Investment Bank with all the related debt service charged to the budget. There was also a sizable reduction (from 800 to 150 billion) in the loans disbursed by the Savings and Loans Fund to Local Health Units to finance deficits of earlier years. In addition, the financing the Fund had been expected to disburse to SIP was not carried out, whereas in the first half of 1986 it had provided this company with 860 billion. On the other hand, the Fund's lending to municipalities and provinces increased considerably, from 1.73 to 2.98 trillion.

In the first half of 1987 budget fiscal revenues (including the VAT receipts used for refunds and accruing to the EEC, but excluding accounting transactions with special statute regions and tax collection commissions) increased by 5.6 per cent compared with the corresponding period in 1986 and totaled 106.1 trillion lire. When account is taken of the delay in recording transactions that led to some 1985 revenues being included in the accounts for 1986, the increase becomes 6.8 per cent. Over the first nine months of the year the growth rate rises to 8 per cent (8.9 per cent when adjusted as above). The volume of receipts in the third quarter reflected the strong trend of direct taxes, in particular payments of self-assessed tax and the amounts withheld from wages and salaries.

The rise in personal income tax revenues by around 10 per cent in the first nine months of the year was the outcome of two opposite trends. On the one hand, the revenue produced by the withholding tax on wages and salaries, which had remained virtually stationary in 1986 as a result of the changes in the rate structure, increased by a little more than 13 per cent, fueled by the rise in earnings and the effects of labour contract renewals on the tax base. On the other hand, the effects of the relief granted for 1986 on incomes other than compensation of employees (estimated at around 2 trillion lire) were concentrated in the payment of the balances due, which decreased by about 600 billion compared with the previous year.

Payments of other self-assessed taxes also rose and exceeded the high levels recorded in 1986. Those by corporate bodies reflected not only the large profits earned in the last few years (the dividend tax withheld on account increased by 30 per cent) but also the rise in the effective average rate. This latter was initiated in 1984 by the introduction of restrictions on the deductibility of interest payments and reinforced by making income from govenment securities liable to corporate income tax. In total, the tax paid by corporate bodies on 1986 income was 22 per cent up on the corresponding figure for the previous year.

Receipts from the flat-rate withholding tax on interest were 12 per cent down in the first nine months of the year, in line with the decline in bank deposit interest in 1986. This resulted in very small balances being due (less than 300 billion lire, compared with 1.8 trillion in 1986) and a consequent drop in the first payment on account. Though insufficient to offset the foregoing revenue losses, there was an increase in the tax on bond income (up 19 per cent) and in that on income from government securities, which ceased to be tax exempt in September of last year.

Ministry of Finance statistics permit a more detailed analysis of some revenues and show that the indirect taxes assessed through July were up 16 per cent. There appear to have been particularly large increases in the excise duties on oil products, VAT and registry taxes. The first reflected the rate increases in the duty on petrol, which were introduced as an offset to the fall in oil prices during 1986 and averaged 5 per cent compared with the first seven months of 1986, and the similar increases in the duty on diesel fuel (up by nearly 45 per cent). In total, the duties on oil products produced 23 per cent more revenue. Gross of amounts for refunds and accruing to the EEC, VAT revenues rose by more than 13 per cent. After falling off in 1986, the part assessed by customs rose by around 8 per cent in connection with the upturn in the prices of raw materials, especially oil. Finally, the very large rise in receipts from the registry tax (nearly 20 per cent) reflected the reduction in the tax concessions introduced in 1982 for the purchases of property in certain circumstances, with a consequent doubling (from 2 to 4 per cent) of the rate.

Government fiscal revenues for the whole of 1987 are expected to exceed the figure included in the budget. This result will be partly due to the measures introduced in August, which should provide around 3.5 trillion lire of extra revenue and cause the tax to GDP ratio to rise slightly compared with 1986.

Money and financial markets

The monetary and credit aggregates and the conduct of monetary policy

In the second and third quarters of 1987 the monetary authorities took a series of steps to correct the course of the monetary and credit variables. This action culminated in the restrictive exchange and credit measures needed to overcome the exchange rate crisis that developed between August and September and to reabsorb the excessive growth in bank lending, which had far outstripped both GDP and investment.

During the spring the state sector borrowing requirement had tended to rise faster than planned and the demand for government securities had shown signs of weakening. Coupled with the halt in the downward trend of inflation, this made it advisable to interrupt the process of lowering the yields offered at issue. The growth in GDP was fueled primarily by domestic consumer demand, while export demand was slacker than had been anticipated. This combination had an adverse impact on the current account of the balance of payments.

Banks' foreign currency lending slowed down after the advantageousness of such financing had been reduced by making banks' net foreign currency liabilities subject to the compulsory reserve requirement in March. The rate of increase in total lending nonetheless remained high, fueled by the growth in lira loans, which was particularly strong from May on. The lending of the special credit institutions also speeded up, particularly in the industrial and real estate sectors. On several occasions the Bank of Italy invited the major credit institutions to moderate the rise in their lending at rates below those obtaining on the interbank market.

Starting in May the Bank of Italy also used its refinancing of banks to tighten conditions in the money market. After following a downward trend in the first four months of the year, the overnight rate rose by around two percentage points compared with the April average and continued to rise on average in the subsequent months (see insert on the Bank of Italy's money market interventions).

The financial tensions that were building up were reflected in the secondary market, where the prices of medium and long-term securities started to soften. Another contributory factor was the increase in the foreign currency component of portfolios as a result of the abolition in May of the residual non-interest-bearing deposit on foreign investment.

To ensure the financing of the state sector borrowing requirement, the yields on government securities were raised in July. Those on Treasury bills and Treasury bonds were increased by around one percentage point, the aim being to counter the effect on real interest rates of the unexpected halt in the decline in the rate of inflation (Figure 9).

The pressure on the exchange rate just before the mid-August holiday was met by drawing heavily on the reserves. At the end of the same month a package of fiscal measures was introduced with the aim of damping domestic consumption. The official discount rate was raised to 12 per cent and the action to curb bank liquidity was intensified, with the overnight rate rising to around 13 per cent. Another step taken to reduce uncertainty in the securities market was the doubling (from 6.25 to 12.50 per cent) of the withholding tax on income from government securities one month earlier than scheduled. At the same time the gross yield at issue was raised to leave the net yield unchanged for individuals.

After slowing down in July, bank lending spurted again in August. Compared with the end of 1986, lira loans expanded by an annualized 14 per cent in the first eight months of the year and total lending by 11 per cent. This was accompanied by an expansion of special credit at a rate of around 12 per cent. The bond issues of firms and local authorities through August

Bank of Italy intervention in the money market

In the first quarter of this year, the easing of restraints on liquidity was reflected in a decline in overnight interest rates from 13.7 per cent in early January to an average of 10 per cent in March. In the latter month the Bank of Italy mopped up remaining excess liquidity by means of open market operations, based partly on outright sales and partly on temporary sales involving repurchase agreements.

In April, a contraction in the inflow of foreign exchange was offset by an unexpectedly large increase in public sector financing requirements, which reached 15.5 trillion lire, and by an appreciable reduction in the demand for government securities. With expectations subject to growing uncertainty, the demand for Treasury bonds and twelve-month bills was particularly restrained. All told, market placements of government securities amounted to 11.5 trillion lire, and the overnight rate declined to an average of about 9 per cent for the month. The central bank stepped up its temporary sales, which amounted to 4.3 trillion lire at rates ranging up to a high of 11 per cent, and made outright securities sales on the open market to a total of 4.0 trillion lire.

The weakening tendency of demand for government securities was further evidenced in May, when sales on the primary market amounted to only 8 trillion lire against financing requirements of 10 trillion. The demand for Treasury credit certificates declined as well. To facilitate the sale of the securities, the shift in the market's preference was accommodated by the resumption of issues of three-month Treasury bills at mid-month. In view of an outflow of foreign exchange reserves, the control of banks' reserves was tightened. The maximum rate on sales of repurchase agreements was raised to 11.6 per cent, while the minimum rate on acquisitions of such instruments several times exceeded 12 per cent. The effective rate on fixed-term advances also rose rapidly, as penalty rates came into play for frequent use, to reach just under 13 per cent in the last ten days of May.

In June the Treasury's cash accounts showed a surplus, and the consequent tightening of liquidity conditions was particularly marked in the first ten days of the month, when foreign exchange outflows continued. On this occasion the minimum rate on temporary securities purchases went up to 12.15 per cent, while the effective rate on fixed-term advances neared the maximum penalty. Market operators disinvested in securities in the primary market, and only the sale of Treasury discount certificates, backed by an underwriting consortium, was successful (about 1 trillion lire being taken up). The disinvestment in securities and the half-yearly payment of interest on compulsory reserves enabled the banking system in late June and early July to repay financing obtained from the Bank of Italy.

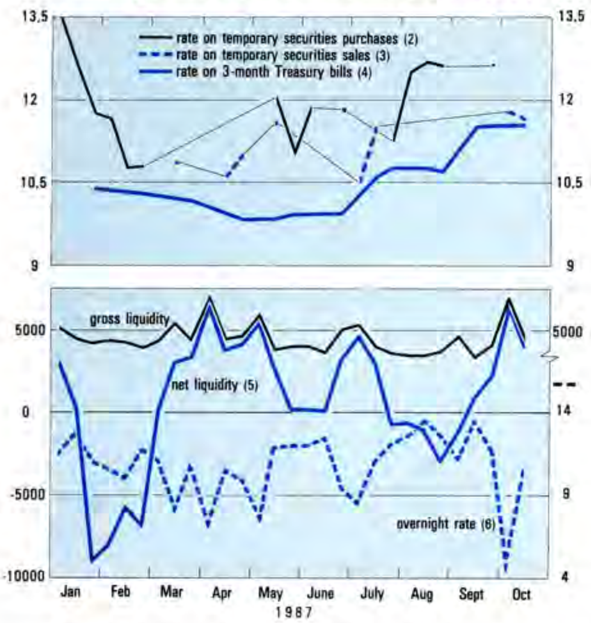
The yield on Treasury bonds on issue in early July was raised by one percentage point, and the rate on the first coupon of Treasury credit certificates was also raised, though to a lesser extent. However, this was insufficient to stem the drawing back of investors from medium and long-term securities and hence to offset the expansionary impact of the rapidly rising state financing requirement, which amounted to 14 trillion lire in July. The liquidity situation became more expansive and the Bank of Italy intervened by making temporary sales amounting to 4.0 trillion lire.

Better results were achieved at the short end of the maturities spectrum. An increase of one percentage point in the floor-price rate on Treasury bills made possible sales at two auctions to a total of 6 trillion lire, net of redemptions. At both auctions the demand for three-month bills exceeded the supply. At

amounted to 1.8 trillion lire, so that total credit to the non-state sector expanded at an annual rate of 11.2 per cent, two points above the upper range of the 5-9 per cent target for the year (Table 14). Instead of contracting as envisaged in the planning scenario, the state sector domestic borrowing requirement continued to run above the previous year's level, totaling 68 trillion lire through August. Accordingly, total domestic credit expanded by 13.3 per cent on an annual basis, which is nearly the same as in the first eight months of 1986.

Liquid assets grew more slowly than financial assets as a whole. In particular, M2 grew through *mid-month the Treasury issued credit certificates with half-yearly coupons instead of Treasury discount certificates. Acquisitions of securities again prompted the banking system to turn to the central bank for financing, which was provided at increasing interest rates. This made it possible to bring the overnight rate back up from 8.5 per cent in the first ten days of the month to 12.2 per cent in the last ten days, while liquidity net of central bank financing declined from 4.8 trillion lire to a negative 800 billion.*

Money market rates and bank liquidity (1)



(1) Except for Treasury bills, ten-day averages of daily rates. — (2) Arithmetic mean of lowest rates on purchases during the ten-day period. — (3) Arithmetic mean of highest rates on sales during the ten-day period. — (4) Simple gross interest rate at auction. — (5) Net of fixed-term advances and repurchase agreements. — (6) Arithmetic mean of asked prices.

Developments continued along these lines in August, in conjunction with increasingly strong pressure on the lira in foreign exchange markets. While demand for medium and long-term securities remained weak, 6.5 trillion lire worth of Treasury bills were sold, net of redemptions. At the end-August auction the strength of demand drove the tender rate on three-month and twelve-month bills below the floor-price rate. Outflows of foreign exchange led the banking system to resort to massive central bank financing, which was provided in such a way as to bring about a further, progressive rise in its cost. Net liquidity remained negative throughout the month, and the overnight rate fluctuated around 13 per cent.

To help overcome the temporary difficulties in the secondary market for government securities, the Bank intervened in September with outright purchases. The wave of speculation that hit the lira early in the month, and which led to the adoption of a package of measures described elsewhere in this Bulletin, was resisted by letting the 6.5 trillion in temporary purchases made in August expire without renewal. The banking system obtained credit in the form of fixed-term advances (more than 1.6 trillion lire outstanding at mid-month) at rates that rose rapidly to 13.6 per cent. At the same time the overnight rate rose, on several days exceeding 14 per cent.

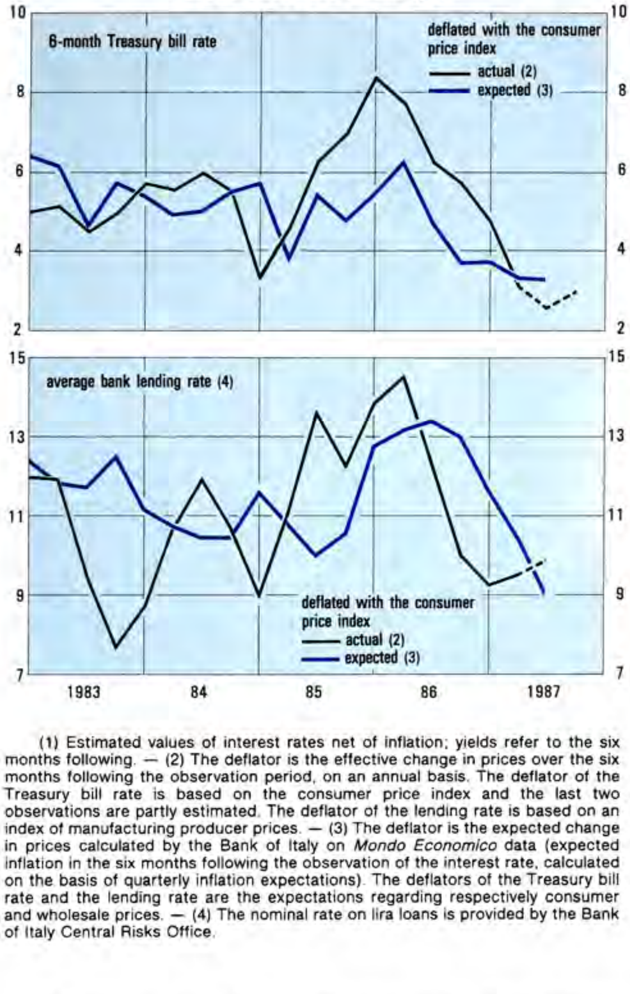
Liquidity conditions were then gradually eased as foreign exchange flowed back in from abroad. The effect of the inflow was augmented in October by the weakness of demand for Treasury bonds and credit certificates, and the level of banks' free reserves rose further. The central bank thereupon intervened with temporary sales of 10 trillion lire, the term being fixed to coincide with the payment of the withholding tax on interest income by banks. This action caused the overnight rate to rise again.

August at an annual rate of 8.6 per cent, thus remaining within the 6-9 per cent target range, while M2A grew by 7.8 per cent (Table 15). However, the composition of the flows shows that in the first seven months of the year M2 accounted for nearly 35 per cent of all new financial assets (23 per cent in the corresponding period of 1986), while the proportion attributable to investment funds dropped from 34 to 7 per cent (Table 16).

In view of the considerable volume of monetary base created by the Treasury (Table 17), this aggregate grew by 6.3 trillion lire through September, an annual rate of 10.9 per cent. The twelve-month rate of increase in September was equal to 11.1 per cent, compared with 8.4 per cent in the same month of 1986.

Figure 9

Real interest rates (1)



(1) Estimated values of interest rates net of inflation; yields refer to the six months following. — (2) The deflator is the effective change in prices over the six months following the observation period, on an annual basis. The deflator of the Treasury bill rate is based on the consumer price index and the last two observations are partly estimated. The deflator of the lending rate is based on an index of manufacturing producer prices. — (3) The deflator is the expected change in prices calculated by the Bank of Italy on *Mondo Economico* data (expected inflation in the six months following the observation of the interest rate, calculated on the basis of quarterly inflation expectations). The deflators of the Treasury bill rate and the lending rate are the expectations regarding respectively consumer and wholesale prices. — (4) The nominal rate on lira loans is provided by the Bank of Italy Central Risks Office.

Pressure on the exchange rate revived in September and it remained difficult to place government securities, especially those with longer maturities. Additional measures were thus necessary and on 13 September some foreign exchange controls were reimposed (see insert in the section on the balance of payments) and the ceiling on bank lending in lire was reintroduced.

In addition to blocking a source of finance for speculation against the lira, the ceiling was intended to cut back lending in connection with operations of a financial nature. The period for which the ceiling was introduced (September 1987-March 1988) will allow time for the Finance Law and the measures accompanying it to curb the state sector borrowing requirement and damp domestic consumer demand. The reduction to zero of the compulsory reserve ratio on banks' net foreign currency fund-raising has encouraged an upturn in foreign currency lending.

Table 14

Total domestic credit

(percentage changes on an annual basis) (1)

	1986	1987	
	Year	Jan-Aug	Objective
Bank lending (2)	9.6	11.1	
Special credit institution lending	12.8	11.7	
Net bond issues	21.6	9.2	
Non-state sector financing (2)	11.4	11.2	7
State sector domestic borrowing requirement (3)	17.6	14.6	
Total domestic credit (2)	15.1	13.3	11

(1) Seasonally adjusted. — (2) Corrected for exchange rate variations and the funding of past debts. — (3) Net of contributions to financial intermediaries' endowment funds and of funding operations.

Table 15

Monetary variables

(percentage changes on an annual basis) (1)

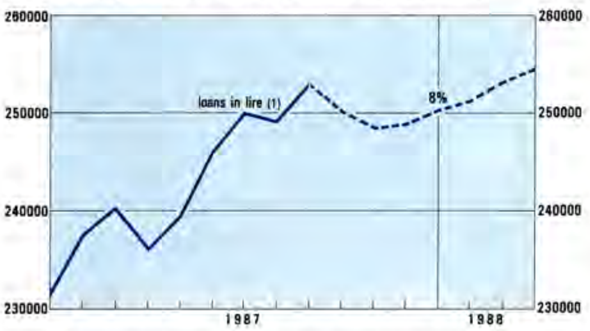
	1986		1987	
	Jan-Aug	Year (2)	Jan-Aug (3)	Target range
Bank reserves (4)	0.5	5.0	9.7	
Monetary base (4)	4.4	5.8	10.2	
Bank deposits	6.3	8.9	7.1	
Money supply net of CDs (M2A)	6.7	8.1	7.8	
Money supply (M2)	7.2	9.4	8.6	6-9

(1) Seasonally adjusted. — (2) The figures for bank reserves and monetary base are distorted as a result of industrial action at the Bank of Italy at the end of 1985. — (3) Provisional. — (4) Corrected for the change in the compulsory reserve ratio.

The ceiling on bank lending in lire

The ceiling on bank lending in lire introduced on 13 September was a response to the rapid growth in this aggregate over the first eight months of the year, a growth accounted for in large part by the shift into lira loans from bank loans expressed in foreign currencies. As a matter of fact, from June through August the banks' foreign currency lending diminished by the equivalent of some 3 trillion lire.

The measure is to be effective from September 1987 through March 1988 and is designed to reduce the growth rate of lira lending to 8 per cent by the end of the year (see figure). The aggregate subject to the growth ceiling comprises loans in lire to resident non-bank customers, bankers' acceptances, bad debts, unpaid and protested bills of exchange, and the financing of compulsory stockpiling. Lending from funds administered for government bodies and rediscounts or refinancing with the Fund for Credit to Artisanal Enterprises are excluded. The measure also exempts banks operating in Italy whose reference base of lending amounted to less than 10 billion lire as well as lending to businesses with their registered offices and headquarters in the province of Sondrio.



(1) Seasonally adjusted data on the lira loans subject to the ceiling.

The reference base for banking units operating in Italy is defined as the arithmetic mean of their lira lending in the months of February, March and April 1987, a time of year when seasonal differences in the lending activity of individual banks are particularly small.

The aggregate covered by the ceiling also includes lending in lire, as defined above, to clients resident in Italy by the foreign branches of the banks subject to the constraint. The reference base for the foreign branches is the amount of lending subject to the ceiling at the end of September 1987 divided by 1.025. Adding this value to the base for banking units operating in Italy gives the overall reference base. The measure lays down the following percentage limits to growth relative to this base:

September	*1987*	*2.5%*
October	*1987*	*4.0%*
November	*1987*	*4.5%*
December	*1987*	*8.0%*
January	*1988*	*7.5%*
February	*1988*	*6.0%*
March	*1988*	*6.5%*

If a bank breaches the ceiling, it must make a non-interest-bearing deposit with the Bank of Italy scaled according to the excess in question. For excesses up to 1 per cent of the ceiling as of the reference date, no deposit is required. For overshoots between 1 and 3 per cent, the deposit required will be equal to 40 per cent of the entire excess; from 3 to 6 per cent, 80 per cent of the excess; above 6 per cent, 100 per cent.

Examining the measure's impact in relation to the size of banks, the permitted growth path is more constrictive for the large banks. Their annualized growth rate of lending, which was 14.7 per cent in July, has to be brought down to 8.2 per cent in October and to 5.9 per cent in December. On a seasonally adjusted basis, about 90 per cent of the slowdown in lending from September to the end of the year will be accounted for by the ten largest banks and savings banks. However, it is worth noting that adjustment to the new growth path seems likely to be easier for the larger banks. Provisional figures for September show a contraction of lira lending that, although extending to the entire banking system, appears to be concentrated in the larger banks as described in the text. It is easier for these banks to achieve a rapid reduction in lira lending not only because a larger share of their overall lending consists of loans in connection with operations of a financial nature but also because of the size and characteristics of their main customers, who are accustomed to a higher degree of substitutability between lira and foreign currency loans.

Table 16

Financial assets of the private sector (1)

(percentage composition)

	Stocks		Flows	
	Dec 1986	July 1987	Jan-July 1986	Jan-July 1987
Money (M2)	55.0	53.3	23.0	34.7
of which:				
bank deposits	44.6	42.9	15.3	24.1
Treasury bills and acceptances	12.8	11.8	0.4	−1.0
Medium-term securities	23.8	26.6	40.2	59.2
Investment fund units	6.0	6.1	33.5	6.9
Other	2.4	2.2	2.9	0.2
Total	**100.0**	**100.0**	**100.0**	**100.0**

(1) Domestic financial assets of the non-state sector, excluding direct holdings of shares; seasonally adjusted.

Table 17

Monetary base

(changes in billions of lire)

	1986		1987 (1)
	Jan-Sept	Year	Jan-Sept
Sources			
Foreign sector	3,325	3,543	−3,015
Treasury	3,511	10,995	13,322
Borrowing requirement	*82,389*	*110,192*	*84,746*
(excluding settlements of past debts)	*(81,846)*	*(109,586)*	*(84,655)*
Outstanding securities excluding BI	*−76,426*	*−87,563*	*−66,387*
Other financing (2)	*−2,452*	*−11,634*	*−5,037*
Refinancing of banks	−5,212	−4,334	−1,157
Other sectors	−2,431	−1,004	−2,842
Total	**−807**	**9,200**	**6,308**
Uses			
Currency in circulation	−947	3,143	−294
Bank reserves	140	6,057	6,602
Compulsory reserves	*4,354*	*9,022*	*7,407*
Deposits against loans in excess of ceiling	*6*	*—*	*—*
Liquidity	*−4,220*	*−2,965*	*−805*

(1) Provisional. — (2) Includes PO deposits, foreign loans and other minor items.

The limits on bank lending have been set to produce an increase in lira loans of 8 per cent for the year as a whole, in line with growth in GDP and investment. The reference base was chosen to attenuate random and seasonal effects on individual banks (see the insert on the ceiling).

With the aim of limiting the tendency for borrowers to replace bank credit with loans from special credit institutions, these were invited not to speed up their lending, especially at short term.

Demand for credit and the activity of credit intermediaries

The expansion in the lending of banks and special credit institutions in the first eight months of 1987 was fueled by the persistence of strong demand for funds for operations of a financial nature and by the upturn in mortgage loans and consumer credit. There were nonetheless also signs of an upturn in lending to finance production and investment.

Over the first eight months of the year the growth in bank lending fluctuated considerably but on average it far outpaced that in GDP. This pattern is evidence of the highly unstable nature of the relationship between credit and economic activity in the last two years, stemming in part from lending for financial purposes that is influenced by money market yields. The existence of a link between the demand for loans and interbank rates is confirmed by the strong positive correlation between the growth of lending and the differential between the overnight rate and the minimum lending rate. A widening of this differential appears to encourage prime corporate customers, whose extensive restructuring efforts have involved the adoption of improved methods for the management of their financial assets and liabilities, to expand their borrowing in order to act as intermediaries in the money market, in part by way of operations in government securities.

Evidence of operations of a financial nature is to be found both in the increase in the variability of loans of over 10 billion lire, which is now much greater than that of total bank loans, and in the behaviour of financial companies and the holding companies of the leading industrial groups. In July the twelve-month rate of increase in the borrowing of this category of firms was over 40 per cent, and their deposits also grew strongly.

The twelve-month rate of expansion in lending to industry rose from 3.6 per cent in December 1986 to 6.8 per cent in July (the abnormally low level recorded in December does not completely invalidate the comparison since the rate in November 1986 was 4.8 per cent). The tendency since 1985 for industry's share of the flow of credit to decline is nonetheless confirmed. Paralleling this reduction, which is partly offset by financial and holding companies onlending some of their borrowings to productive firms, has been the growth, in the last two years at an annual rate of close to 20 per cent, of credit to the distributive trades, services and households. Consumer credit expanded particularly fast, with the twelve-month rate of increase rising from 24.5 per cent in December 1986 to 31.7 per cent in July 1987. The main determining factor was the high level of personal loans.

During 1986 and in the first part of 1987 the long-term downward trend of the major banks' share of the credit market was interrupted. In line with a process that got under way in 1984, there was a further increase in competition among banks, primarily to the advantage of large borrowers. The proportion of loans disbursed at below-prime rates has risen to 50 per cent, with an increase of over 6 percentage points during 1987. In addition, after the expiry of the ceiling in the first half of 1986 there was a gradual increase in the dispersion of lending rates classified by size of loan. In the first seven months of this year the ratio of credit facilities used to the total granted dropped by more than one point compared with the average for 1986, falling to just below 50 per cent, thus confirming the tendency that got under way in 1985 for credit granted to grow constantly faster than that used.

The growth in bank deposits in the first half of the year amounted to around 9.5 per cent on an annual basis, with slow growth in January and February followed by a sharp acceleration from March on. This development reflected the poor performance of the stock exchange and the public's reduced propensity to invest in government securities and investment fund units. When the yields on government securities were raised in July and August, with a consequent widening of the interest rate differential between Treasury bills and deposits, the growth in the latter slowed.

Fund-raising by way of certificates of deposit, which had continued at a fast pace in the early months of the year, slowed down as investors' liquidity preference increased sharply in response to the uncertainty surrounding interest rates. The banks did not seek to counter this development and kept the differential between CD rates and the average rate on deposits small.

Banks' profitability in the first six months of this year was down on that of the corresponding period in 1986, when it was boosted by the ceiling on loans, but nonetheless an improvement on that recorded in the first half of 1985. A small decrease in the interest rate margin, which did not affect all the size categories of banks, was compounded by a drop in income from services that can be attributed to the decline in income from securities trading. Net income was also depressed by a rise in staff costs.

The strong demand for credit also influenced the lending of the special credit institutions, which expanded rapidly through August at an annual rate of 11.7 per cent. The rate of increase had already been high in the first four months of the year (around 12 per cent on an annual basis) and in the period May-July it accelerated (to around 16 per cent). In August, by contrast, a slowing down occurred partly in connection with the rise in medium and long-term rates.

There was particularly strong growth in real estate and building credit (around 16 per cent through August on an annual basis), which continued to accelerate from the already high rate of expansion recorded at the end of 1986 in response to the lively demand associated with lower nominal interest rates. The rapid rise in the lending of the real estate and building credit institutions was more pronounced for the real estate component (which is used to finance the purchase of existing buildings) and was matched by a parallel increase in the lending of special credit institutions to households.

The considerable increase in lending by the industrial credit institutions is to be seen in relation to the development of capital expenditure on machinery and equipment, which also boosted the demand for credit from leasing companies. Though it continued at a high level, lending to financial companies slowed down. Partly as a result of this, the short-term lending by special credit institutions slackened, though it continued to expand very fast (by 33 per cent in the twelve months through June, as against 51 per cent in 1986). Subsidized credit operations expanded rapidly, though by a little less than those at market rates.

The special credit institutions' fund-raising by way of bond issues remained at a high level even though the residual securities investment requirement was not renewed. In the first eight months of the year the volume of outstanding bonds increased by around 7 trillion lire, compared with 2.2 trillion in the corresponding period of 1986 (Table a28). A substantial amount was also raised though foreign loans, while the contribution of CDs declined, owing both to the competition of those issued by banks in the first part of the year and to the slowdown in short-term operations.

The financial market

The total volume of bonds and government securities issued through August was much the same as in the corresponding period of 1986. The increase in the bond issues of special credit institutions was partly offset by the decline in those of companies. The net issues of government securities, including Treasury bills, amounted to around 59 trillion lire in the first eight months of the year, which was only slightly less than in the corresponding period of 1968 (Table 18).

The change in expectations that occurred over the period resulted in a changed distribution of borrowing by type of instrument compared with the previous year. In particular, Treasury bonds, which had accounted for a large proportion of government funding in 1986, only raised 13.2 trillion lire through August, or 22 per cent of total net issues (compared with 23.1 trillion and 37 per cent in the corresponding period of 1986). This shift in the composition of borrowing took place between May and August, when issues of Treasury bonds amounted to 4.7 trillion lire, while those of Treasury bills totaled 11.5 trillion (compared with net redemptions of 5.1 trillion between January and April). This development interrupted the process of lengthening the average maturity of the public debt. After rising in the first part of the year, this fell to three years and nine months in September, on a par with the December 1986 value.

Table 18

Government securities (1)

(billions of lire)

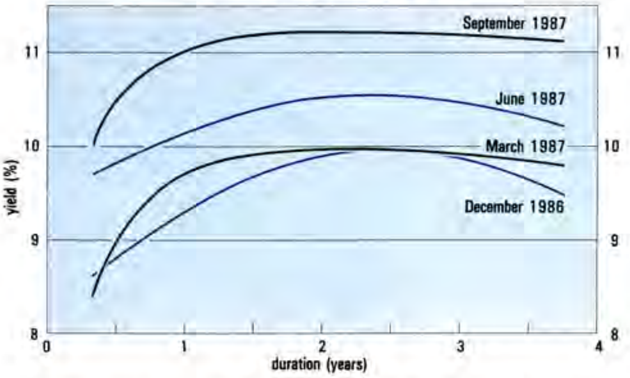
	Issues		Net proceeds (3)	
	Gross	Net (2)	Total	Market (4)
Total				
1985	384,553	106,102	50,239	32,309
1986	400,476	97,153	32,073	28,193
1986 Jan-Aug	264,626	62,623	17,601	24,314
1987 Jan-Aug (5)	268,208	58,746	15,226	15,497
of which:				
Treasury bills				
1985	256,281	13,181	−8,116	−20,341
1986	265,866	9,697	−8,371	−9,975
1986 Jan-Aug	178,413	5,893	−7,208	−3,212
1987 Jan-Aug (5)	190,639	6,480	−4,846	−5,973
Treasury credit certificates				
1985	97,209	78,567	51,111	42,697
1986	79,255	53,534	15,063	12,922
1986 Jan-Aug	45,755	34,539	8,662	7,561
1987 Jan-Aug (5)	49,130	31,958	6,765	6,530
Treasury bonds				
1985	17,288	3,973	−1,067	609
1986	53,276	35,025	29,236	26,743
1986 Jan-Aug	38,176	23,092	19,453	17,991
1987 Jan-Aug (5)	17,390	13,189	7,750	6,262

(1) The 1985 figures include the securities issued in settlement of debts amounting in net terms to 9,923 billion lire. — (2) Net of discounts and redemptions. For Treasury bills, net of redemptions only. — (3) Gross issues less redemptions, discounts and coupons considered net of withholding tax. (4) Total net proceeds less the part subscribed by the Bank of Italy. — (5) Provisional.

In the first five months of the year the yield curve for government securities had a rising slope for the shorter maturities. In June interest rates rose generally, but the increase was again concentrated at the short end of the market. Thus, the slope of the yield curve continued to be upward, but it was less pronounced than before. In July, August and September there were further increases in interest rates, which extended to longer term maturities (Figure 10).

Figure 10

Time/yield curves (1)



(1) The curves were constructed by interpolating the effective yields on listed Treasury bonds in relation to their durations.

The weakening of the prices of government securities in the secondary market, which had already started to affect Treasury bonds in February, spread to Treasury credit certificates and as from June became more pronounced. In the period from June to September the prices of Treasury bonds fell by 2.9 per cent and those of credit certificates by 2.6 per cent. In the nine months through September the ex post yields on Treasury credit certificates and bonds were respectively 7.9 and 6.0 per cent on an annual basis. The fall in prices also reflected expectations of a rise in interest rates in connection with the upturn in the rate of inflation and the doubling of the withholding tax on income from government securities, scheduled for October.

The erratic behaviour of the prices of some securities, especially Treasury credit certificates, can be attributed in part to the market's difficulty in evaluating the effects of the increase in the rate of the withholding tax. At present there are seven base rates that the market has to calculate to determine the gross coupons on Treasury credit certificates and three different tax treatments, which makes it complicated to determine relative profitability. In this climate of uncertainty, the Bank of Italy intervened regularly in September with open market purchases totaling 1 trillion lire intended to ensure orderly trading.

The changes in the taxation of government securities have had far-reaching effects in view of the different treatment of individuals and corporate bodies. For a given gross yield, individuals and investment funds tend to buy securities that are subject to a lower rate of taxation and provide a higher net yield (tax-exempt securities and those liable to tax at the rate of 6.25 per cent). The demand for such securities tends to reduce their gross yields, while corporate bodies have an advantage in selling them and buying new issues in their place. The first seven months of 1987 provide evidence of a similar pattern: the small reduction of around 1.5 trillion lire in the Treasury bonds and credit certificates held by banks that send automated prudential returns was the result of a 16 trillion lira increase in taxed securities and a reduction of nearly 18 trillion in tax-exempt securities, of which around 2.8 trillion were in respect of redemptions. The securities in banks' portfolios at the end of November 1984 were less affected by this drop since they were subject to a more favourable tax treatment (Table 19). This shift in the composition of banks' portfolios mainly occurred in the first part of the year and slowed down when the fall in prices began to have a negative impact on banks' profitability. When this process comes to an end, the securities that are tax exempt and with tax withheld at a lower rate will be held mainly by individuals and investment funds and their net yields will tend to come into line with those on securities with tax withheld at the rate of 12.5 per cent.

The share of bonds and government securities taken up by investment funds decreased sharply, and they actually made net sales of 800 billion lire through August, compared with net purchases of 24 trillion in the corresponding period of 1986 (Table a30). After continuing to acquire securities in the early months of the year, the funds made substantial disinvestments from May through August (4.1 trillion, as against net purchases of 9.1 trillion in the corresponding period of 1986). The effect of the funds' behaviour was offset in part by the banks, which bought securities in a period of the year in which they normally disinvest (700 billion lire, as against −2.5 trillion in May-August 1986), and the Bank of Italy, which, after selling securities for nearly 3 trillion lire in the first four months of the year, made purchases amounting to 9.3 trillion lire in the second four months (−50 billion in the year-before period).

"Other investors" also acquired securities mainly in the early months of the year (39.3 trillion between January and April, as against 23.7 trillion in the year-before period), but continued to buy through August (15.9 trillion compared with 20.3 trillion in May-August 1986).

Table 19

The banks' portfolio of Treasury credit certificates and Treasury bonds (1)

(face values in billions of lire)

	Stocks		Flow Jan-July 1987	
	December 1986	July 1987		of which: redemptions (2)
Tax-exempt securities held at 30 November 1984 (3)				
Credit certificates	30,091	22,895	−7,196	−2,500
Bonds	115	101	−14	—
Total	30,206	22,996	−7,210	−2,500
Other tax-exempt securities (3)				
Credit certificates	28,777	20,560	−8,217	—
Bonds	6,183	3,726	−2,457	−295
Total	34,960	24,286	−10,674	−295
Taxed securities				
Credit certificates	6,679	20,072	13,393	—
Bonds	2,567	5,511	2,944	—
Total	9,246	25,583	16,337	—
Total				
Credit certificates	65,547	63,527	−2,020	−2,500
Bonds	8,865	9,338	473	−295
Total	74,412	72,865	−1,547	−2,795

(1) This survey is restricted to the banks making special computerized returns. — (2) Investment securities held at 31 December 1986 and maturing in the period January-July 1987. — (3) The division is partly estimated.

At the end of September the net assets of Italian investment funds amounted to 68.3 trillion lire. The increase from the beginning of the year was equal to 3.2 trillion lire and therefore smaller than the flow of subscriptions (4.1 trillion), a result that can be attributed to the fall in the prices of securities and especially share prices. Sales of units remained strong in the first part of the year but subsequently declined. Between May and August the weakness of the share market and expectations of a rise in interest rates led households to invest primarily in bank deposits and short-term securities. The result was a changeover from net sales by investment funds to net redemptions, which amounted in August and September to 640 and 1,540 billion lire respectively.

Table 20

Portfolios of Italian investment funds

(billions of lire)

	Lira securities			Foreign currency securities		Total
	Government (1)	Bonds	Shares	Bonds	Shares	
1986 — Dec	35,844	5,153	17,887	1,422	2,305	62,611
1987 — Feb	37,804	5,312	17,739	1,443	2,618	64,916
Mar	37,858	5,459	18,947	1,522	2,981	66,767
Apr	38,830	5,538	20,418	1,632	3,202	69,620
May	39,277	5,522	19,010	1,745	3,298	68,852
June	38,760	5,599	18,996	2,065	3,392	68,812
July	37,671	5,711	18,835	2,389	3,872	68,478
Aug	36,236	5,527	17,100	2,666	4,274	65,803
Sept	34,533	5,486	17,861	2,775	4,382	65,037

(1) Includes Treasury bills.

The funds invested quite regularly in the first five months of the year and their purchases of shares were countercyclical compared with the performance of the share price index. Subsequently, the elimination of the non-interest-bearing deposit against purchases of foreign securities and uncertainty about interest rates encouraged investors to shift the balance of their portfolios in favour of the foreign component, which rose by 2.1 trillion lire between June and September (from 7.3 to 11.0 per cent of the total). The high propensity to invest abroad is revealed even more clearly by the composition of the portfolios of the investment funds that entered the market during the year, whose reallocation costs were presumably lower. In September, these

The rationalization of the geographic structure of the banking system

The supervisory authorities recently took steps aimed at giving each bank greater freedom to adjust its geographical network to changes in the demand for banking and financial services.

The Interministerial Committee for Credit and Savings adopted a resolution on 21 May 1987 introducing significant innovations with regard to the transfer of branches from one bank to another and the various types of branch.

In accordance with the Committee's directives, the Bank of Italy has issued notices to permit under normal conditions the transfer of branches from one bank to another under Articles 53 and 54 of the Banking Law. The banks will thus have alternatives to the closure of branches that no longer accord with their strategies and new ways of improving their capital base and earning ability. Banks taking over branches will have the opportunity to enter new markets with an operational structure already in place, and hence can expect to do so at less cost.

The Bank of Italy will consider applications on the basis of three criteria:

1. *a satisfactory business situation, in other words that the acquiring bank meets the requirements for orderly operations and has an appropriate organizational structure;*
2. *capital adequacy, understood as meaning both the ability of the acquiring bank to bear the financial costs associated with the acquisition of the new offices and its situation with regard to the compulsory minimum capital ratios;*
3. *gradualness in geographic expansion, in the sense that banks that are predominantly local in character will not be permitted to extend their geographic coverage suddenly, a precaution necessary in order to ensure that the branches being acquired are adequately integrated with those already owned by the banks in question.*

The Bank of Italy will also take account of the need to maintain sufficient diversity in local credit markets and to ensure that individual municipalities are adequately covered.

The Committee also decided to standardize the types of bank branches and empowered the Bank of Italy to allow offices that are subject to limitations as to type of operations, clientele or period of operation to be converted into full branches. The purpose here is to enable the banks to use their networks flexibly and efficiently and to make the supply of services responsive to changes in demand.

Accordingly, the Bank of Italy used its powers under Article 28 of the Banking Law to convert the two thousand or so offices performing limited operations (seasonal and occasional, internal, money market, cash and foreign exchange, commercial bill and pawnbroking) into ordinary branches in all respects. Banks were instructed to decide themselves how wide a range of services each outlet should offer in the light of the characteristics of the markets they serve. From now on, the Bank of Italy will refer to a single type of bank branch in exercising its powers of authorization.

The standardization measure does not apply to representative offices, to administrative offices to which customers do not have access, to those for carrying out tasks entrusted to third parties for specific banking operations or to services performed in customers' homes, since such offices are not typical points of contact between banks and their customers for carrying out banking activities.

Measures have also been taken to liberalize the setting-up of temporary branches at fairs, exhibitions and markets, for which banks will no longer have to obtain prior authorization from the Bank of Italy but simply notify it of the opening and closing dates.

The rules governing the relocation of branches are also under review. Banks will be classified according to size and by geographic area, into groups which correspond to limits of geographical mobility. Transfers will take place within these areas in accordance with plans drawn up by each bank and assessed by the Bank of Italy solely on the basis of the technical fitness of the individual bank.

The same guiding principle, whereby the emphasis of supervision will tend to shift away from the conditions prevailing in local markets towards the corporate profile of the banks concerned, will also be applicable to the regulations on the opening of new branches.

In principle, banks' expansion plans will be subject to geographic boundaries and quantitative limits that will be indicated for different types of banks. Such plans will be assessed by the Bank of Italy on the basis of criteria regarding the capital adequacy, earning potential, cost structure and organization arrangements of each credit institution.

funds' foreign assets amounted on average to about 16.4 per cent of their total portfolio. The reduction in the proportion of lira-denominated assets between the end of May and the end of September was the result of the fall in the share component and especially of the approximately 4.7 trillion lira reduction in government securities, from 57.0 to 53.1 per cent of the portfolio total (Table 20).

The growth of the share market, which had gone ahead by leaps and bounds until the middle of 1986, was reversed. In the first nine months of this year the turnover in listed shares on the Milan stock exchange (31 trillion lire) was around 60 per cent of the value recorded in the corresponding period of 1986, while prices fell on average by 11 per cent. The downward slide of the index was interrupted by a short-lived recovery in March and April, but re-emerged in the following months and steepened in the second half of October under the influence of the collapse on Wall Street.

The thinning out of demand for shares increased the difficulty of raising new risk capital. New issues of shares decreased considerably compared with 1986 — for listed companies alone from 9.6 trillion lire in the first nine months of 1986 to 5.5 trillion through September this year.

Short-term prospects

Projections for 1987

There was a pause in the expansion of economic activity in the summer of 1987. On the basis of adjusted data, the pace of industrial output in July and August was 1.5 per cent lower than in the second quarter; initial indications gleaned from figures on electricity consumption confirm that the picture was unchanged in September. However, business expectations for the fourth quarter do not signal a fall in demand, although growth expectations have been revised downwards, particularly as regards consumer durables, owing to the tax measures taken in August. If production stagnated for the remainder of 1987, the overall year-on-year increase in output would work out at just over 3 per cent.

Gross domestic product should also increase by around 3 per cent in 1987, as indicated in the projections contained in the Government's Forecasting and Planning Report (Table 21). Although slightly up on 1986, the growth in national income is likely to be around half a point below the target.

The expansion in domestic demand has been higher than forecast, especially consumer demand. The latter is expected to grow by more than 4 per cent, as households' purchasing power and real wealth will continue to benefit from the favourable effects of last year's strong improvement in the terms of trade, which have been felt more fully this year. Further stimulus has come from the new labour contracts concluded in both the private and public sectors, especially from the latter.

Expenditure on machinery and transport equipment has increased substantially, but gross fixed investment in construction has remained disappointing, owing to difficulty in starting public building projects that have already been approved. The change in stocks over the year is also expected to be large.

Table 21

Italian macroeconomic variables

	1986	1987 (1)	1988 (1)
	(percentage changes)		
Real aggregates			
GDP	2.7	3.0	2.8
Domestic demand	3.2	4.5	3.5
Real external balance (2)	−1.9	−6.1	−2.3
Deflators			
GDP	8.1	5.4	4.6
Private consumption	6.1	4.6	4.5
Terms of trade (2)	14.1	1.5	0.5
	(as a percentage of GDP)		
Financial balance/GDP			
State sector borrowing requirement (net of settlements of past debts)	12.3	11.2	10.5
External current account balance (IMF)	0.7	0.1	−0.2

(1) Projection for 1987 and planning scenario for 1988 published in *Relazione previsionale e programmatica per il 1988*. — (2) Percentage change in the index computed as the ratio between the volume index numbers (or the deflators) of exports and imports in the national accounts.

The growth in demand has fed through swiftly to imports of goods and services, which are expected to increase by 7 per cent in volume terms, almost 2 percentage points faster than last year. At the same time, the unsatisfactory rate of growth in world trade in the first half of 1987 has strongly affected Italy's exports, which are unlikely to increase by more than 1 per cent in real terms on an annual average basis. The lack of synchronism between domestic demand in Italy and that in our trading partners is reflected in the balance of payments. The current account, which recorded a surplus last year, will probably be in balance in 1987, despite a further small terms-of-trade gain following the exceptional improvement in 1986. The energy deficit will remain broadly unchanged, but the non-oil trade surplus will probably fall by around 10 trillion lire, on the basis of customs data. This result reflects the deterioration in the trade balance in volume terms, even discounting the partial recovery that was already evident in the third quarter and is likely to continue for the remainder of the year.

The annual average rate of inflation has been around 1.5 percentage points lower than in 1986, but slightly above the target; in recent months, however, there have been signs of an acceleration. After falling to a low of 4.1 per cent in June, the twelve-month rate of increase in the cost of living rose to 5 per cent in September and, on the basis of early data on the large cities, was probably 5.4 per cent in October. The outturn for the year to December is therefore likely to show an increase in the region of 6 per cent, which partly reflects the impact of the VAT surtax introduced on 27 August and the increase in tobacco duty on 5 October (see the insert in the chapter on public finances). Moreover, wholesale prices have been rising since March. The latest indications available for August show a twelve-month rate of increase of 4.1 per cent, the highest since January 1986.

Despite the renewal of the majority of labour contracts and the reduction of the fiscal relief on social security charges, profit margins in manufacturing industry are likely to increase further this year, albeit much less than in 1986. In particular, total unit costs might rise by around 3.5 per cent, 0.5 points less than producer prices, after remaining more or less stable in 1986 owing largely to the fall of around 7 per cent in the lira prices of imported inputs. In the private sector as a whole, the rise in unit labour costs will probably be around 5 per cent, after taking account of increases of around 2.5 per cent in productivity and about 7 per cent in per capita wages. However, the salaries of public employees are expected to rise by more than 11 per cent.

The failure to keep current budget expenditure constant in real terms was the main reason why the state sector borrowing requirement overshot the 100 trillion lira target set in the planning documents.

In the first nine months of the year the borrowing requirement was almost 3 trillion lire higher than in the same period of 1986; the fiscal measures taken in recent months should allow the 1987 budget deficit to be brought down to the levels recorded in 1985 and 1986. The state sector borrowing requirement should therefore decrease further in relation to GDP, after having already declined by more than 1 percentage point last year.

The growth in debt servicing charges should be small, since the effects of the expansion in the public debt have been almost offset by the fall in interest rates. The increase in revenues has had a favourable effect on the borrowing requirement. So too, though on a smaller scale than last year, have exceptional financial operations, such as the transfer of public-sector agencies' remaining bank balances to the Treasury and the reduction in subsidies to state-owned enterprises. On the other hand, the latter have been allowed to continue to issue bonds or raise loans and to pass the entire servicing charges on to the central government budget.

The acceleration in bank lending, which was particularly noticeable during the summer, receded rapidly after the introduction of the credit ceiling. In September lira lending contracted by around 9 trillion lire and its annual rate of increase slowed down from 13.9 per cent in the period from January to August to 8.4 per cent in the first nine months of the year; the rate of growth in total lending came down from 10.9 to 7.2 per cent.

The reduction was more than enough to bring lending back within the ceiling. The entire banking sector was affected, although the slowdown was most pronounced among large banks. The growth in lira lending is now in line with a target of around 8 per cent for the twelve months ending in December. The increase in lending by special credit institutions is likely to be larger, given the high level of expenditure on machinery and equipment and brisk mortgage demand.

If corporate bond issues are also included, lending to the non-state sector should increase at a rate slightly above the target range. The growth in total domestic credit will probably also be higher than the target (just under 13 per cent, compared with a target of 11 per cent; Table 22). As last year, 70 per cent of the flow of total credit will be utilized by the state sector.

Table 22

Financial flows

	Gross domestic product		State sector borrowing requirement (1)		Credit to the non-state sector (B)		Total domestic credit (A) + (B)			Private sector financial assets (2)			
					flows		flows		ratio to GDP	flows		ratio to GDP	
	billions of lire	% change	total	domestic (A)	billions of lire	%	billions of lire	%	(3)	billions of lire	%	(3)	(4)
1980	390,432	....	37,018	34,015	29,219	16.4	63,235	18.5	16.2	52,615	15.8	13.2	98.7
1981 (5)	468,049	19.9	53,293	45,239	28,098	13.5	73,336	18.1	15.7	65,410	17.0	14.0	96.5
1982 (5)	545,124	16.5	72,702	69,036	31,604	13.4	100,640	20.9	18.5	89,724	19.9	16.5	99.5
1983	613,575	15.9	88,257	85,194	35,432	13.2	120,626	20.7	19.1	111,542	20.6	17.7	103.7
1984 (6)	720,682	14.1	95,387	91,400	48,322	15.6	139,723	19.7	19.4	129,009	19.7	17.9	109.0
1985	805,754	11.8	110,237	107,483	46,474	13.0	153,957	18.1	19.1	138,756	17.7	17.2	114.9
1986	894,362	11.0	109,586	106,300	46,000	11.5	152,300	15.1	17.0	156,998	17.0	17.6	121.6
1987 (7)	966,000	8.0	100,000	97,000	31,000	7.0	128,000	11.1	13.3	126,000	11.6	13.0	125.3
1987 (8)	**970,750**	**8.5**	**109,000**	**103,000**	**44,500**	**10.0**	**147,500**	**12.8**	**15.2**	**141,500**	**13.0**	**14.6**	**126.3**
1988 (7)	**1,044,550**	**7.6**	**109,500**	**104,000**	**39,000**	**8.0**	**143,000**	**11.0**	**13.7**	**136,000**	**11.1**	**13.0**	**130.4**

(1) The total borrowing requirements for 1985, 1986 and 1987 do not include settlements of past debts in securities or cash; the latter are included, however, in the domestic borrowing requirement. — (2) Domestic, net of shares. — (3) Based on period flows. — (4) Based on end-of-period stocks. — (5) Net of the effects of the non-interest-bearing deposit on external payments. — (6) Lending to the non-state sector has been corrected for the distortions in banking statistics connected with the elimination of the ceiling on bank lending. — (7) Planning scenario. — (8) Forecast outturn; the figures for GDP and the overall state sector borrowing requirement are those of the *Relazione previsionale e programmatica per il 1988.*

The domestic financial assets of the non-state sector are expected to increase by around 13 per cent. Investment fund units will make up a much smaller proportion of the total than in 1986. Looking ahead, the recent instability of the share markets may further strengthen investor preference for liquid assets, such as Treasury bills and bank deposits. The need to increase market placements of government securities while at the same time containing the shortening of the average life of new securities prompted the authorities to review the level and slope of the Treasury bill yield curve at the October auction. This will help keep money supply growth within the target range of 6-9 per cent.

The return flows of reserves brought about by the measures of 13 September had an immediate expansionary impact on bank liquidity, inducing a fall in interbank rates at the beginning of October. In the first half of the month the Bank of Italy mopped up more than 10 trillion lire of liquidity by means of open market operations, carried out at rates around 11.5 per cent. The inflow of foreign exchange reserves means that market placements of government securities must be increased and monetary financing of the Treasury curbed for the remainder of the year.

The prospects for 1988

The world economy

The forecasts made in September by international organizations indicate a continuation of the moderate growth in the world economy and a slight reduction in current account disequilibria among the major countries. The economic scene continues to be clouded by great uncertainty, however, expecially after the recent exceptional events in stock markets throughout the world, which may depress growth. Especial caution should therefore be exercised when interpreting the forecasts.

The fiscal policies of the three major countries should help eliminate current account imbalances through their differing impact on relative growth rates of domestic demand. In the United States new measures to reduce the Federal budget deficit are under consideration in Congress after the sizable reduction in relation to GNP in the current year; in Japan the measures announced on 29 May to increase public expenditure by 6 trillion yen, equivalent to 1.8 per cent of national income, should boost economic activity by 1.5 per cent in 1988, despite the appreciable deterioration in the real trade balance. In Germany the implementation of tax reductions will lead to an increase of 0.7 percentage points in the public sector deficit as a proportion of GDP.

The gross national product of the industrialized countries is expected to increase by 2.6 per cent in 1988 (Table 23). The expansion will be below average in France and Germany, at 1.8 and 2.1 per cent respectively. It is believed that domestic demand is growing more slowly than GNP in the United States, while in most of the other industrialized countries the opposite is probably the case. In Japan domestic demand will grow almost one percentage point faster than national product and in Europe 0.7 points faster.

According to IMF estimates, economic growth in the developing countries should exceed 4 per cent in 1988. Within this group, oil exporters will probably record a rate of 2.7 per cent, a recovery after the reduction of almost 1 per cent in their national product in 1987.

Table 23

Forecasts of the main international macroeconomic variables

(percentage changes on previous year)

	1986	1987	1988		1986	1987	1988
GDP (1)				**Current balances** (2)			
Industrial countries	2.7	2.4	2.6	Industrial countries	−18.0	−39.0	−44.0
of which:				*of which:*			
United States	2.9	2.4	2.7	United States	−141.0	−152.0	−141.0
Japan	2.4	3.2	3.4	Japan	86.0	85.0	83.0
Europe	2.6	2.1	2.0	Europe	55.0	46.0	31.0
Germany	2.5	1.5	2.1	Germany	37.0	41.0	33.0
Non-oil LDCs	4.9	4.4	4.8	Non-oil LDCs	−14.0	−9.0	−15.0
Oil-exporting LDCs	0.9	−0.9	2.7	Oil-exporting LDCs	−33.0	−11.0	−4.0
Consumer prices				**Unemployment rate** (3)			
Industrial countries	2.3	3.0	3.4	Industrial countries	7.9	7.7	7.6
of which:				*of which:*			
United States	1.9	3.7	4.1	United States	7.0	6.2	6.0
Japan	0.6	0.3	1.6	Japan	2.8	3.0	3.0
Europe	2.9	2.9	3.4	Europe	10.7	10.8	10.7
Germany	−0.2	0.6	2.4	Germany	7.9	7.9	7.7
World trade (1)	**4.8**	**3.4**	**4.4**				
Exports (1)				**Imports** (1)			
Industrial countries	2.6	2.5	4.0	Industrial countries	8.4	3.5	3.6
Non-oil LDCs	7.5	8.8	6.3	Non-oil LDCs	2.7	5.6	7.1
Oil-exporting LDCs	12.9	−4.8	7.1	Oil-exporting LDCs	−21.9	−15.3	0.1

Source: IMF.
(1) At constant prices. — (2) Billions of dollars. — (3) Level.

Owing to the rise in the prices of oil and some other raw materials, inflation in the industrialized countries as a whole is likely to approach 3.5 per cent next year; in the United States the inflationary impact of the depreciation of the dollar will probably be fairly marked, contributing to an inflation rate almost one point higher than the average.

The performance of trade flows in volume terms will help reduce current account disequilibrium in the United States, Japan and Germany, which has been impeded hitherto by the effects the depreciation of the dollar and the fall in oil prices have had on nominal trade flows, greatly to the advantage of the last two countries. Measured in relation to gross national product, the current account surpluses of Japan and Germany should fall from 3.6 per cent in both cases in 1987 to 3.2 and 2.7 per cent respectively in 1988. The United States will benefit only slightly from this reduction; as a proportion of GNP, the US current account deficit will probably decline by half a percentage point to 2.9 per cent. In fuel-exporting developing countries the sharp fall in imports and the rise in crude oil prices should enable them to restore virtual current account balance, while non-fuel exporters should consolidate the external gains they have made to date.

The persistence of the present current account disequilibria constitutes the greatest threat to the prospects for growth in the world economy. If adjustment begins too slowly, thereby provoking further exchange rate instability, it could re-awaken inflationary expectations in countries with currencies prone to depreciate and might trigger a restrictive monetary policy response, with adverse consequences for economic activity; any intensification of protectionist pressures would further aggravate the picture described above.

Leaving aside technical factors that may have made the sudden and universal fall in share prices on 19 October more dramatic, the violent fluctuations in equity markets demonstrate the fragility of the present equilibria in the capital and foreign exchange markets and the importance of reinforcing coordinated monetary and fiscal action by the main industrialized countries. If they do not succeed in giving greater substance to their announced economic policy intentions on which the above predictions are based, the uncertainty and instability now evident in the financial markets will eventually spill over onto the real economy.

The 1988 planning scenario for the Italian economy

Although output expanded satisfactorily in 1987, the substantial benefits the Italian economy derived from the sharp fall in the price of oil and the depreciation of the dollar rapidly evaporated. These benefits had come at a time when the general picture had already greatly improved, with monetary and exchange rate policy being supported by measures and actions consistent with the objectives regarding the budget, prices and nominal incomes.

In the changed international and domestic climate, the objectives set out in the Government's Forecasting and Planning Report for 1988 take on added importance; the main points may be summarized as follows:

- the Treasury borrowing requirement should remain, in absolute terms, at the level set for 1987, so that in relation to GDP it should fall by almost 1 percentage point;
- the rate of inflation, even after taking account of the impact of the increase in indirect taxation, should remain below 4.5 per cent on an annual average basis;
- real GDP growth should be just under 3 per cent (Table 21), reflecting a significant slowdown in the expansion of domestic demand and a narrowing of the differential between the growth rates of imports and exports; the current account deficit would therefore work out at only 0.2 per cent of national product.

There are several risks that could jeopardize the chances of achieving these objectives; for that reason the lines of action laid down must be pursued vigorously and continuously through a combination of budgetary, incomes, monetary and exchange rate policies.

The main proposals of the Finance Bill for 1988 and accompanying measures

The Government's financial strategy for 1988 is based on a series of tax measures, a curbing of allocations to decentralized bodies combined with sectoral measures to reduce their expenditure, and the introduction of stricter provisions on the approval of new legislation entailing expenditure.

According to official estimates, the package of measures, including those introduced between August and October (see the insert in the chapter on public finances), should reduce the state sector borrowing requirement by around 16 trillion lire in relation to the trend growth for 1988; the tax and social security measures should generate 8 trillion lire in additional revenue and expenditure should be reduced by an equivalent amount thanks to sectoral measures (especially in the social security and health fields) and the constraints imposed by the provisions on new spending approvals.

Fiscal measures. — *According to official estimates, the package of fiscal measures should generate additional revenue of almost 10 trillion lire in relation to budget results for 1988 otherwise expected ; more than 85 per cent of the increase will come from indirect taxation. As a percentage of GDP, the tax burden would increase by around one percentage point, an increase that would only be partially offset by reductions in social security contributions.*

Decree Law 391 of 24 September 1987, part of which reintroduced the provisions contained in a decree issued in August, and the Decree issued by the Minister of Finance on 5 October introduced a series of measures (see the aforementioned insert) that are expected to produce additional revenues amounting to 3.8 trillion lire in 1988. This calculation does not take account of the loss in revenue caused by the increase in the preliminary payments due in 1987 in respect of corporate mainstream and local income tax and of withholding tax on interest. The Finance Bill provides for this increase to be extended to 1988, when it is expected to generate an additional 2.85 trillion lire of revenue, (1) which would exceed the foregoing loss by around 800 billion.

Both the Finance Bill and a bill approved by the Council of Ministers on 6 October 1987 contain other tax measures that should produce an extra 5.3 trillion lire (excluding the effect of the increase in preliminary payments considered above).

In the field of direct taxes, a reform of personal income tax is foreseen with effect from 1 January 1988. It is estimated that this will reduce government revenues in 1988, 1989 and 1990 by 4.92, 6.52 and 6.82 trillion respectively (2). The proposed changes concern the rates, the income brackets, the allowances for dependent spouses and those for employees. The combined effect of the changes is to reduce the tax paid at every level of income, but with particular benefits for single-income families and employees in the low and middle income brackets. The withholding tax on bank and PO interest earnings is raised from 25 to 30 per cent, which is officially estimated to produce an extra 2.5 trillion in 1988. Provision is made for the revaluation, to be carried out in the financial year in progress and subject to partial tax exemption, of some of the capital assets in companies' balance sheets; this is officially forecast to produce extra revenues totaling 3 trillion lire in 1988. In the subsequent years the effect of the measure will be to reduce revenues, especially in connection with the increased depreciation allowances on revalued assets. Changes are also foreseen in the rules governing the tax treatment of losses arising from mergers and of capital gains arising from the disposal of investments. Finally, provision is made for banks to deduct a larger proportion of the amounts they allocate to loan loss provisions in connection with lending to countries whose foreign debt has been accepted for restructuring, with a consequent 250 billion lira reduction in revenue (2).

In the field of indirect taxes, the current 9 and 18 per cent VAT rates are to be raised to 10 and 19 per cent, with an estimated increase in revenue of 2,982 billion lire (1) (net of the reduction in the excise duties on petrol, diesel fuel, mineral oils and tobacco designed to keep their retail prices unchanged). Motor vehicle license duties are to be raised by 25 per cent and the surtax on diesel and liquid gas fueled vehicles will also rise. This is officially expected to produce an extra 654 billion lire. The tax on insurance premiums is to be increased by 25 per cent, which is estimated to produce an extra 500 billion. The restrictions on the deductibility of the VAT paid on purchases of motor vehicles and fuels are to be extended through 1990, which is expected to generate extra revenues amounting to 1.2 trillion lire; at the same time the relief granted in connection with the purchase of a first house has been extended until 31 December 1988, entailing a reduction in revenue estimated at 360 billion (1).

Social contributions. — *With effect from 1 January 1988, the health contribution rate for employees will drop from 9.6 to 9.4 per cent for employers and from 1.35 to 1.2 per cent for workers, with a further 0.10 reduction for the latter starting in 1989. As for self-employed workers, the so-called health tax, previously levied at the rate of 7.5 per cent, will be charged at a rate of 7 per cent with effect from 1 January 1987 and at a rate of 5 per cent starting in 1989. The surplus amount paid in 1987 can be deducted from the liability with respect to 1988. The 1 per cent health tax paid by civil service, autonomous* *government agency and state railway pensioners is reduced to 0.5 per cent for 1988 and subsequently to zero. The loss of revenue these measures are expected to cause is estimated to total 1,428 billion lire in 1988 and 2,688 billion in 1989 (2).*

The additional per capita contribution paid by farmers, tenant farmers and sharecroppers is to be tripled. The categories that were previously exempted (with farms in mountain areas) will now be required to pay at a lower level. The rate of contribution for agricultural employees to the National Industrial Accidents Insurance Institute will be raised from 7 to 9 per cent. The per capita contribution farmers, tenant farmers and sharecroppers are required to pay to the same institution is more than tripled. The combined effect of these measures will be to raise revenues by around 700 billion.

With effect from 1 December 1987, manufacturing companies will receive differentiated per capita relief (that in the South of Italy being around 30 per cent greater). The resulting reduction in revenues in 1988, 1989 and 1990 is estimated at 1,006, 2,246 and 2,237 billion lire respectively (2). These amounts are in addition to those already included in the budget (7,430 billion for 1988) under existing health contribution fiscalization provisions. This measure interrupts the trend of reductions in relief from social contributions that has been under way since 1985. In particular, the measure offsets most of the reduction in the contributory relief for the manufacturing sector resulting from the switch from a percentage to a poll basis with effect from 1 January 1987.

Health. — *The financing of the current expenditure of the National Health Service charged to the budget in the years 1988, 1989 and 1990 is fixed at 53,500, 55,640 and 57,865 billion lire respectively. The amount for 1988 is 5.7 trillion more than that fixed for the same year in the 1987-89 three-year budget and 1.8 trillion above the latest estimate for 1987. The allocation takes account of a series of measures included in the Finance Bill with the aim of reducing unnecessary hospital bed occupancy and the number of underused hospital beds in public hospitals and limiting the consumption of pharmaceuticals and specialist and supplementary services; it also reflects the effects of a special bill on the reform of the whole health sector.*

Social security. — *The total amount of budget transfers and Treasury advances to the National Social Security Institute is to be fixed at 36 trillion lire (the corresponding amount in the Finance Law for 1987 was 33.4 trillion).*

The screening procedures for the granting of civil disability pensions are changed and brought into line with those adopted for war pensions. Specifically, the Treasury Minister is entrusted with the task of determining procedures for controlling the continuance of eligibility.

The conditions for payment of Extraordinary Wage Supplementation benefits are changed. In particular, companies' proposed restructuring programmes may not last longer than three years (though the Interministerial Committee for Industrial Policy has the power to extend this period by a maximum of two more years) and firms are required to pay the Wage Supplementation Fund a contribution equal to 4 per cent of the extraordinary wages paid to their employees. A "Fund for Reducing Unemployment" is set up at the Ministry of Labour to finance new investment projects by drawing on contributions included under GESCAL (the former Worker Housing Agency).

With effect from 1 July 1988 family allowances are to be replaced by the "family nucleus allowance", the amount of which will depend on the income and number of members of each family nucleus. These measures, which will involve additional expenditure amounting to 550 billion lire in 1988 and to 1,100 billion in subsequent years, (1) are a further step in the transformation of the instruments for supporting family burdens that was initiated in 1983 with the introduction of supplementary allowances. Though still restricted to employee workers, the new allowance supplements family incomes in a way that is no longer strictly related to the existence of dependents.

Financial constraints on new spending laws. — *The provisions requiring the resources needed to finance new legislation to be specified are made more restrictive. In particular, in 1988 new laws entailing increased expenditure must not involve a burden greater than 25 per cent of the increase in assessed revenues or provided by revenue measures. Restrictions are also placed on the use of some budget funds, such as the contingency fund and that for compulsory expenditure, to provide indirectly for new outlays.*

Restrictions are also placed on the introduction of new items in special funds (especially in that on current account) set up to provide finance for legislation that is being prepared and which is expected to be approved during the year.

Staff. — *From 1 January 1988 government departments will be allowed to hire staff on the basis of their work loads and after making recourse to the job mobility foreseen in the relevant interdepartmental agreement.*

(1) Annex 7 of the Report to Parliament accompanying the Finance Bill.
(2) Bill approved by the Council of Ministers on 6 October 1987.

It is on the inflation front that the objective will call for concrete and decisive action. If the Government's target is to be met, the recent rise in prices and the current and planned changes in indirect taxation mean that action to contain nominal incomes must extend to all components of costs, corporate profit margins in both industry and distribution, public service charges and administered prices.

The Forecasting and Planning Report indicates that rates of increase of 5.5 and 5 per cent in private and public sector salaries respectively would be consistent with the target. This would be accompanied by a rise in public service charges and administered prices lower than the target rate of inflation and a reduction in labour costs as a result of further fiscal relief in respect of social security charges. The latter effect can be estimated at just under 1 per cent of labour costs in manufacturing, thereby offsetting almost the entire increase in contributions in 1987. For the economy as a whole, the additional relief and the reduction in health contributions (net of increases in contributions in the agricultural sector) are expected to yield overall benefits estimated at around 2 trillion lire in 1988 and more than twice that amount in 1989. For the inflation target to be met, it is essential that these cost alleviations, as in the case of productivity gains, be reflected in producer prices and not translate into further increases in profit margins after the very large rises in 1986 and the smaller improvements of this year.

Possible tensions in the markets for imported raw materials, and not only energy, are a further reason why it is crucial to contain the domestic components of inflation; the prices of some important products have already risen significantly. Despite the benefits accruing from last year's fall in oil prices, the external constraint continues to condition the growth of the Italian economy; easing it calls for maximum effort to avoid losses of export competitiveness, especially at a time such as the present, when there is considerable uncertainty at international level. At the same time, the growth in domestic demand must not be out of line with that of our trading partners.

The Government's commitment to bringing current expenditure below present trends must be a key element in the effort to contain the state sector borrowing requirement. Specific measures are needed to achieve the planned spending cuts and modify the underlying budget trend. Moreover, not all the measures to increase revenue are of a permanent nature. In particular, the reductions in social security contributions, in the so-called "health tax" borne by self-employed persons and in personal income tax are estimated to cost around 4 trillion lire in lost revenue in 1989 by comparison with 1988. The measure on the revaluation of corporate assets will also lead to considerable losses of revenue from 1989 onwards.

Whether the revenue and expenditure targets are met will determine the scope for carrying out the commitment to alter the composition of public expenditure; if that is achieved, the real increase in public works investment already planned for 1987, but not carried out, can be implemented.

The Bank of Italy has drawn up a programme for growth in monetary and credit aggregates that is consistent with the Government's macroeconomic targets.

A growth target of 8 per cent, in line with the increase in investment and GDP at current prices, has been set for lending to the non-state sector. Divergences of the order of 2 percentage points on either side of this rate will be acceptable, in view of the continuing process of financial innovation, which has made the relationship between the level of economic activity and credit less stable in recent years.

Given the above-mentioned target for the state sector borrowing requirement, total domestic credit expansion should reach 143 trillion lire, equivalent to 13.7 per cent of GDP. Domestic financial assets (excluding shares) should increase at a similar rate; at the end of the year the stock of such assets is expected to exceed the value of national output by almost one-third.

The expansion in the money supply, targeted at between 6 and 9 per cent, should be less rapid than that in financial assets as a whole. The non-state sector's holdings of government securities will have to increase almost twice as fast if the growth in liquid assets is to be kept within this range. Bearing in mind the conditions that will obtain in international financial markets, the level and structure of interest rates will have to be such that the new securities are taken up by savers and maturing debt is refinanced in an orderly fashion.

* * *

Subsequent to the publication of the Italian version of this Bulletin, the Government modified its draft Finance Bill, on which the forecasts of government revenues and expenditures given above were based. In a climate of heightened uncertainty, owing primarily to new developments on the international economic scene, the revision of the bill had a twofold objective: to ensure more stringent action to reduce the budget deficit and to avert the risk that extrapolative expectations might amplify, in the early months of 1988, the automatic rise in the inflation rate following from the planned increase in indirect taxes.

The principal alterations in the draft bill were: the deletion of VAT increases; the postponement of reductions in income tax rates, offset in part by an increase in family allowances; the cancellation of the planned assumption by the state of a further part of employer social security costs; larger budget cuts via a reduction in state advances to ENEL and to the state-controlled companies.

All things considered, thanks to such provisions, the Government forecasts a reduction in the state sector borrowing requirement to 103.5 trillion lire in 1988, equivalent to 9.9 per cent of GDP.

It is also foreseen that personal income tax reductions of 1.5 trillion lire will be introduced, with effect as from 1 July 1988, provided that the twelve-month inflation rate does not exceed the target rate of 4.5 per cent. The loss in revenue will be matched by cut-backs in spending.

(25 November 1987)

The commentaries are based on information available at 23 October.

Documents

Conclusions of the Committee of Inquiry into the Objects and Connected Activities of Insurance Companies and their Capital Interests in Other Enterprises (*)

1. Article 130 of Royal Decree 63 of 4 January 1925 setting out the regulations for implementing the codified law on private insurance companies forbade insurance, reinsurance, actuarial and savings enterprises "to engage in operations lying outside the sphere of the said industries".

This prohibition is reiterated in Article 5(2) of Law 295 of 10 June 1978 on non-life insurance and Article 4(2) of Law 742 of 22 October 1986, though with the object of restricting enterprises to undertaking insurance and reinsurance activities and operations connected with such activity, to the exclusion of all other commercial business. These articles embody the corresponding provisions of the EC Directives on both life and non-life insurance (Article 8 (1) (b) in both cases), the only difference being the substitution of the expression "connected operations" for "operations directly arising therefrom" used in the Directives.

The two expressions are essentially equivalent, although the one used in the Italian laws might appear broader since the concept of "connected" is wider in scope than "arising therefrom". However, the rationale of the legislation is to prevent any possible detriment to policyholders and claimants as a result of the use of the enterprise's capital for activities other than insurance or insurance-related business.

2. The first problem encountered in interpreting the above articles of the Italian laws is to ascertain the meaning of the expression "connected operations".

Economics may come to our aid here, in that it speaks of productive activities entailing "joint" costs, that is to say costs common to the production of several goods. Similarly, according to economics, "joint" activities occur in the production of goods (and services) demanded by the market in conjunction with others. This occurs frequently in modern financial markets, giving rise to "financial conglomerates".

However, if we abide by more strictly legal criteria and take account of the rationale of the law and the need for insurance enterprises to be able to carry out the operations required for the conduct of insurance business, there is unanimous support for the view that connected operations are those that are instrumental to insurance activities: activities other than insurance business per se must constitute a means of carrying out the insurance company's designated activity, in other words, a means of carrying out insurance business.

However, it is more difficult to determine whether a complementary relationship exists if the activities in question belong to the financial sector in the same way as insurance, as banking-related and similar activities do, but are not instrumental to insurance business.

The above considerations raise another problem, namely whether the exclusivity of the insurance company's objects merely forbids it to

(*) The Committee, which was established by Ministerial Decree of 4 May 1987, was initially chaired by Dr Franco Piga, Minister for Industry.

engage directly in activities other than insurance or related to insurance or whether the prohibition also extends to controlling interests in companies engaging in such business. Although there is unanimous agreement that financial activity not directed towards the investment of capital cannot be undertaken directly by an insurance company, there are some who hold that the acquisition of controlling interests would not infringe the exclusivity of the insurance company's objects if it did not entail management activities. Moreover, it is argued that since the company could use only its free capital to make such an acquisition (its reserves must be invested in assets prescribed by law), the company would not even incur any solvency risk, since its liability would be limited to its shareholding and would not affect the rest of its capital; the only limitation would stem from Article 2361 of the Civil Code, which prohibits the taking of interests which, by virtue of their size and purpose, would substantially alter the objects of the investing company.

Others contend, however, that the acquisition of a controlling interest by its very nature constitutes indirect exercise of the activity of the subsidiary company and that it may therefore conflict with the principle of exclusivity of the parent's corporate objects if the activities in question are not simply instrumental to its own business. Moreover, the view that Article 2361 of the Civil Code is applicable implicitly presupposes that the non-insurance activity could also be carried out indirectly by acquiring interests in other companies. If that were the case, the restriction on acquisitions would not derive from Article 2361 of the Civil Code, which is general legislation, but from Article 5 of the law on non-life insurance and Article 4 of the law on life insurance, which form the special statutory framework for private insurance companies. This is confirmed, moreover, by the fact that the directors of the insurance company continually observe Article 2429 bis of the Civil Code, which requires that the report to shareholders include a description of the activities the company has carried out via *subsidiaries*.

3. The fact that the above-mentioned provisions of Italian legislation derive from Community Directives means that for the purposes of a more precise interpretation one must ascertain how the Directives have been translated into the laws of the various countries and how they have been applied.

A survey carried out in this respect and information supplied by the EC Commission show that the provisions relating to the exclusivity of insurance companies' objects contained in the Directives on life and non-life insurance have been incorporated into national legislation in all member countries. Moreover, as regards relations solely between insurance companies and banks, the Commission has ascertained that supervisory authorities responsible for the insurance sector do not oppose the acquisition of majority participations in credit institutions, unless the investment entails risk or might cause financial disequilibria in the parent insurance company. In some countries the banking supervisory authorities place limits on insurance companies' shareholdings in banks or require them to seek prior authorization for such investments. In these countries there is therefore no barrier in principle to insurance companies acquiring banks, but an assessment is submitted to the banking supervisory authority, either in application of banking legislation or following examination of the case in point.

At Community level, the problem that most concerns the Commission and some supervisory authorities is that of ensuring consistent treatment of banks, insurance companies and securities intermediaries with a view to defining common rules and avoiding disparities in the treatment of enterprises operating within the Community but having their head office in other countries.

Moreover, in some Community countries the authorities supervising the insurance sector have powers which, though discretionary, enable them to block investments they consider risky or detrimental.

4. In view of the predominant trend within the Community, Italian legislation should be applied in such a way that the range of activities Italian insurance companies may undertake is no less restrictive than in other EC countries.

Given the different nature of the risks and the possibility of a conflict of interest between banking and insurance companies, the Committee naturally took a favourable view of the need for an adequate separation between management of the parent insurance company and that of the subsidiary bank and the implementation of capital adequacy controls in relation to various sizes of company.

Furthermore, insurance companies should acquire interests in banking enterprises only with resources from their free capital, without prejudice to the current regulations as regards assets to back technical reserves.

From the point of view of the banking system, the acquisition of controlling interests in banks by insurance companies does not raise problems of principle, since both types of enterprise belong to the financial sector. By analogy with the situation regarding capital interests of non-financial enterprises in banks, such acquisitions may nevertheless be disallowed if the insurance company in question has substantial links with non-financial groups; that might infringe the separation between banking and industry, which the Credit Committee recently re-affirmed as a general principle.

5. From the above remarks, it is evident that it is necessary:

a) to give the insurance supervisory authority adequate powers to intervene with regard to the acquisition of shareholdings in order that they remain below the level at which they might begin to upset the structure of the insurance companies' uses of funds, either immediately or in the course of time;

b) to establish adequate coordination between the supervisory bodies for the three savings-gathering sectors in order to provide better safeguards for the general interest by forming an integrated view of the market as a whole.

Speeches

Gold in the International Financial System

Speech delivered by the Director General, Lamberto Dini, at the World Gold Conference

Venice, 22 June 1987

It is a pleasure and a privilege to address this World Gold Conference. After several years during which gold was rather out of the limelight, there has recently been a certain renewal of interest. Uncertainty about the world economic order — rooted in the debt problems of many developing countries, the huge payments imbalances between the leading industrial countries and the persistent weakness of the dollar — has combined with fears of a rekindling of inflation to raise the price of gold by nearly 15 per cent this year, to around 450 dollars per ounce.

There are therefore good reasons for examining the role and prospects of gold in the international financial system. This analysis can be approached either from the standpoint of private investors or from that of central banks. I have been asked to take the second standpoint and discuss gold's monetary role. Even though net additions to monetary gold have been almost negligible in the last few years, official stocks still amount to about 1,150 million ounces and account for nearly 40 per cent of the world's gold.

I shall start by briefly reviewing the role played by gold in the international monetary system and then examine its prospects in the light of a multiple-asset reserve system.

1. The monetary history of gold is an eventful one, marked by exits and unexpected reappearances. Though gold was an early medium of exchange and store of value, a fully-fledged international gold standard only emerged at the end of the last century. It lasted until the First World War and then had a brief revival in the late twenties. After the Second World War gold was again used to underpin the international monetary order. But this arrangement was not to last either. After ensuring stability for over a decade, strains emerged and gold was pushed off the monetary stage in August 1971.

If we look at the history of gold, the shortcomings appear to outweigh the advantages for its role as the linchpin of the international monetary system. Its alleged systemic advantages in promoting automatic adjustment were never really as important as the coordination of economic policies. Furthermore, its very quality of being in limited supply often prevented it from meeting the needs of trade expansion and economic growth with stable prices.

Under the gold standard, the national monetary unit was defined in terms of a fixed quantity of gold; the central bank or the Treasury undertook to buy and sell gold at the official price in terms of the national currency; gold was freely coined and gold coins formed a significant part of currency in circulation; gold could be freely imported and exported. In turn, these conditions implied nearly fixed exchange rates between the currencies of countries on the gold standard.

In this system, the traditional view concerning the "automatic" adjustment of external disequilibria rested on the assumption that domestic prices and wages were perfectly flexible. Under this assumption, the money flows associated with international settlements of such imbalances rapidly cause prices to adjust, restoring a competitive price and cost pattern without affecting output and employment. In reality, discount rate policy played a key role in the adjustment mechanism under the gold standard. Prompt changes in domestic interest rates induced both compensatory capital movements from the surplus to the deficit countries and reduced the need for significant adjustments of prices and costs. Harmonization of national monetary and credit policies was based far less on ex post corrective action — which required national price and wage levels to be highly flexible, both upwards and downwards — than on maintenance ex ante of monetary policies that avoided the emergence of large cost disparities. There is also evidence that changes in the composition of money during the gold standard period (i.e. a rapid growth of "paper" money matched by a fast decline of gold and silver in circulation) helped smooth out the money supply swings that fluctuations in the supply of gold would otherwise have caused.

The financing of the First World War and the subsequent reconstruction caused both the fiat money liabilities of central banks and inflation to rise sharply, while the production of gold tended to slow down. The supply of money thus soared in relation to the stock of official gold and convertibility was suspended in nearly every country.

In the twenties, efforts were made to rebuild an efficient financial system after the upheavals of the war. Central banks supplemented their gold reserves with convertible currencies (basically dollars and pounds sterling) in order to "economize" on the use of monetary gold. The aim was to create a monetary order combining an adjustment mechanism based on fixed exchange rates — in line with the traditional gold standard — with scope for discretion in the conduct of monetary policy, thus loosening the physical constraints imposed on total means of payment by the supply of gold.

But the re-establishment of gold parities in the inter-war period responded in many cases to considerations of prestige and ignored the clear signs of downward rigidity that prices and costs were showing. In the United Kingdom, the restoration of the pre-war parity in 1925 was considered necessary for London to regain its central role in the international financial and commercial system. However, other countries, like France, established a parity well below the one prevailing before the war. The adoption of "arbitrary" gold parities put great strains on domestic economies and on the pattern of international payments.

Apart from this, the system had an intrinsic deflationary bias. Indeed, the production of gold fell short of that needed to ensure monetary creation on a scale permitting adequate economic growth with stable prices. During the thirties, in an attempt to protect employment, maintain a minimum level of output and limit the use of gold as a means of international settlements, countries introduced a variety of protectionist measures and engaged in competitive devaluations, multiple exchange rates and preferential clearing systems.

At Bretton Woods it was not considered necessary to make radical changes in the system of mixed reserves (gold plus foreign currency) that had prevailed between the wars. Indeed, it was believed that the difficulties encountered with the gold-exchange standard could be overcome through adequate cooperation between the major countries and, in particular, between the reserve centres. The leading country, the United States, was committed to maintaining the gold convertibility of its currency; the other countries undertook to maintain their exchange rates within narrow margins (± 1 per cent) of agreed dollar parities. However, parities were subject to adjustment in the event of "fundamental disequilibrium". The task of overseeing the smooth working of the system and the respect of formal exchange rate obligations was entrusted to the International Monetary Fund.

In the early years the system was stable — but then, so was US economic policy. Moreover, the scope for capital movements was limited by the inconvertibility of most currencies. The system was nonetheless flawed by inherent weaknesses — lucidly recognized by Professor Robert Triffin as early as the late fifties. Noting that the increase in the output of gold was not keeping pace with that in world trade, Triffin argued that the system was bound to lead either to excessive restraint for lack of reserves — if the United States maintained the convertibility of the dollar by keeping its official liabilities as a stable proportion of its gold holdings — or to a crisis of confidence followed by the suspension of convertibility — if the United States allowed its official liabilities to rise in line with trade and world demand for reserves.

The first strains emerged after the major currencies returned to convertibility in 1958. The continuous deficits in the US balance of payments in the early sixties caused America's official liabilities to grow within sight of its stock of gold, which had fallen in the meantime to less than half of total official gold holdings (Table 1). Fears of a dollar devaluation spurred speculative purchases of gold. To relieve this pressure, the United States made it illegal for Americans to buy or hold gold abroad (a ban that remained in force until 1975), while the central banks of the major industrial countries informally agreed to refrain from buying gold in the market when demand was running high. Shortly afterwards, in March 1961, the same countries decided to create a gold pool with the aim of stabilizing the metal's price in private markets.

In the years that followed, the increase in international reserves was mainly in the form of convertible currencies. This expansion was accompanied by only modest growth in the official stock of gold. Increases in the holdings of Germany and especially France were offset, in spite of the support provided by the IMF, (1) by the erosion of those of the United Kingdom and, above all, of the United States. By the end of 1967 the US stock of official gold totaled 345 million ounces (equivalent to 12 billion dollars) and had been overtaken by America's official liabilities, which had risen to 18 billion dollars.

The 1967 foreign exchange crisis, which broke in the autumn with the devaluation of the pound sterling, coupled with the pressures generated by fears of other parity changes, caused private demand for gold to soar and increasingly strained the resources of the gold pool; in the middle of March 1968 the British authorities were forced to close the London gold market.

It would, of course, have been possible to respond by raising the official price of gold, which would have increased the value of the official gold stock and helped America to cope with its external payments deficits. There were fears, however, that confidence in the dollar would suffer considerably from such a step.

Table 1

Gold in international official reserves 1913-1986 (1)

(end-of-period percentages)

	1913	1928	1937	1950	1960	1970	1980	1986
Official gold as per cent of international official reserves (2)	85.4	75.7	91.4	68.8	63.6	41.3	59.9	44.5
Distribution of official gold among main groups of countries								
— Industrial countries	..	..	..	90.9	90.8	86.5	84.1	84.3
United States	..	..	..	*68.2*	*47.0*	*29.9*	*25.5*	*25.5*
EEC countries	..	..	..	*15.1*	*34.8*	*45.0*	*45.3*	*47.0*
— Oil-exporting countries	..	..	..	2.2	1.9	3.2	3.9	4.2
— Non-oil-exporting countries	..	..	..	6.9	7.3	10.3	12.0	11.5
Total . . .				**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: IMF and R. Triffin, *The Evolution of the International Monetary System: Historical Reappraisal and Future Perspectives*, Princeton Studies in International Finance, no. 12, 1964.

(1) Gold valued at $ 20.67 per ounce for 1913 and 1928, at $ 35 for 1937 and at market prices for the period 1950-1986. — (2) International official reserves = Gold + foreign currencies + SDR's + reserve position in the IMF.

An alternative would have been to accept a diminished role for gold in the international monetary system and to create an artificial "paper gold" reserve asset to underpin the system and regulate official liquidity. This approach was indeed to lead to the introduction of "Special Drawing Rights" (the SDR) in 1969. The aim was to free liquidity creation from the vicissitudes of the US balance of payments and the physical constraints of gold production, thereby ensuring it would meet the needs of world trade and international adjustment.

However, the implementation of this "paper-gold" was undermined by lax financial policies in the United States, which provoked an over-rapid expansion of international liquidity, fueled inflation, weakened the balance of payments and led to a loss of confidence in the dollar. Competitive fears of other major industrialized countries prevented the necessary appreciation of their currencies. The huge interventions made in foreign exchange markets could not be effectively sterilized: worldwide inflationary impulses were set in motion.

As far as gold is concerned, in March 1968 the major industrial countries (with the exception of France) agreed in Washington to set up a two-tier market. This was a major step towards the "demonetization" of gold. The expansion of international liquidity and the consequent divergence between the official and market prices of gold led, confirming Gresham's Law, both to wider use of the "bad currency" (the dollar) and to hoarding of the "good currency" (gold).

In August 1971 the suspension of dollar convertibility broke the technically tenuous, but psychologically important, links with the gold standard and brought the curtain down on Bretton Woods — the system upon which international financial relationships had relied for over a quarter of a century.

2. With the switch to floating exchange rates, the international monetary system lost its anchor. Underlying the change was the belief in the US and elsewhere that floating would ease the external constraints imposed by the previous system.

During the seventies official attitudes to gold were ambiguous, reflecting the state of flux of international monetary relations. On the one hand, with the aim of gaining more flexibility in the management of economic policies, steps were taken to further "demonetize" gold and remove it altogether from the structure of the financial system. Together with the erosion of the role of the United States in the world economy, this favoured the appearance of a multi-currency reserve system. On the other hand, the payments imbalances engendered by the oil price hike encouraged many countries, especially in Europe, to look for ways of mobilizing their gold reserves, whose market value was rapidly increasing.

The most important step towards the formal "demonetization" of gold was the accord reached by the Interim Committee at its meeting in Jamaica in January 1976 and incorporated in the Articles of Agreement of the IMF with the Second Amendment in 1978. In particular, this accord provided for: the elimination of gold as the common denominator of currencies' par values; the abolition of its official price (SDR 35 per ounce since 1971); and the abolition of the obligation for IMF member countries to pay quota increases and the interest on their drawings in gold.

In the summer of 1978, the price of gold rose to around $200 per ounce and then continued to rise, despite US gold sales of about 12 million ounces during 1979. In January 1980 quotations reached a peak of $850 per ounce. Apart from specifically political tensions, this flare-up in the price of gold can be attributed to the acceleration of inflation in the industrial countries, lack of confidence in the dollar and OPEC countries' increased purchases in the gold market.

Recognition of the inflationary risks inherent in a system without any exogenous disciplinary standard led a part of the academic community to consider a return to some kind of gold standard. Professor Robert Mundell, for example, argued that: "To prevent all countries from inflating together, there must be an outside medium. There must be a global anchor to provide a reference target to measure worldwide inflation and establish a ceiling on equilibrium prices. Gold (or convertible SDRs) would serve if it were convertible into national currencies and kept at a fixed price and limited supply. If the dollar is the principal international medium of exchange, there must be a convertibility requirement on it or some alternative discipline to limit the rate of expansion of the supply of dollars".

In June 1981 the US Congress set up a *Gold Commission* to study the feasibility of restoring the dollar's gold convertibility as a means of stabilizing prices and exchange rates. With much disagreement among its members the Gold Commission recommended against restoration of any formal monetary role for gold. However, it did not completely rule out the possibility of gold playing a bigger role if reasonable price stability and confidence in the dollar were not restored in the years ahead. On America's stock of gold, the Commission concluded that "while no precise level for the gold stock is necessarily 'right', the Treasury retains the right to conduct sales of gold at its discretion, provided adequate levels are maintained for contingencies". (2)

While the United States and the IMF were clearly oriented towards the demonetization of gold in the seventies, many countries were looking for ways to put their official gold to some use. In April 1974 the EEC agreed on transactions between the central banks of the member countries at market-related prices, while in June of the same year the G-10 countries signed an agreement permitting gold to be used as collateral for loans between central banks. An example of this arrangement is the $2 billion loan that the Bundesbank granted to the Bank of Italy in 1974. In the following years, numerous swaps were set up using the same basic technique: a loan backed by gold valued at a discount on the market price; maintenance of the gold backing at a minimum level, by way of a commitment to provide additional gold in the event of its price falling, and interest accruing for the duration of the loan at rates linked to LIBOR.

With the inception of the European Monetary System in March 1979 a mechanism was introduced permitting the partial mobilization of official gold through the creation of ECUs against the deposit of gold, valued on the basis of market prices, with the European Monetary Co-operation Fund. The amount of official gold deposited by EEC countries has remained virtually unchanged at about 85 million ounces, while the corresponding deposits in dollars have varied to a greater extent. The ECUs created against gold in the first year of the EMS amounted to about 60 per cent of total official ECUs issued, while in the eighties this proportion has risen to about 75 per cent. The mechanism adopted by the EEC countries for the mobilization of official gold has entailed a significant increase in their official liquidity, further enhanced by the new mechanism for ECU mobilization introduced in 1985.

Finally, it is worth noting that even though the stock of official gold has not changed significantly in the eighties, the monetary authorities of several countries have continued to make sales and purchases. (3)

3. What, then, are the prospects for gold in the international monetary system?

I do not believe that gold can be cast in a monetary role again — either internationally, as a benchmark for exchange rates and official liquidity creation, or nationally, as an "outside" anchor for monetary policy and price stability.

Internationally, the major obstacle to the establishment of fixed exchange rates and a more "managed" system of liquidity creation is the conflict between the internal and external objectives and policies of the leading industrial countries. Gold cannot resolve this conflict, and its use would involve serious technical difficulties.

Any attempt to restore an official gold price would inevitably create strains in the payments system. It would hamper the expansion of trade if the price were fixed irrevocably, and lead to speculative crises if it could be changed according to circumstances. At all events, fixed exchange rates, whether or not underpinned by gold, can only be maintained if countries are willing to subordinate their domestic policies to this external goal, a condition that does not depend directly on reference to gold.

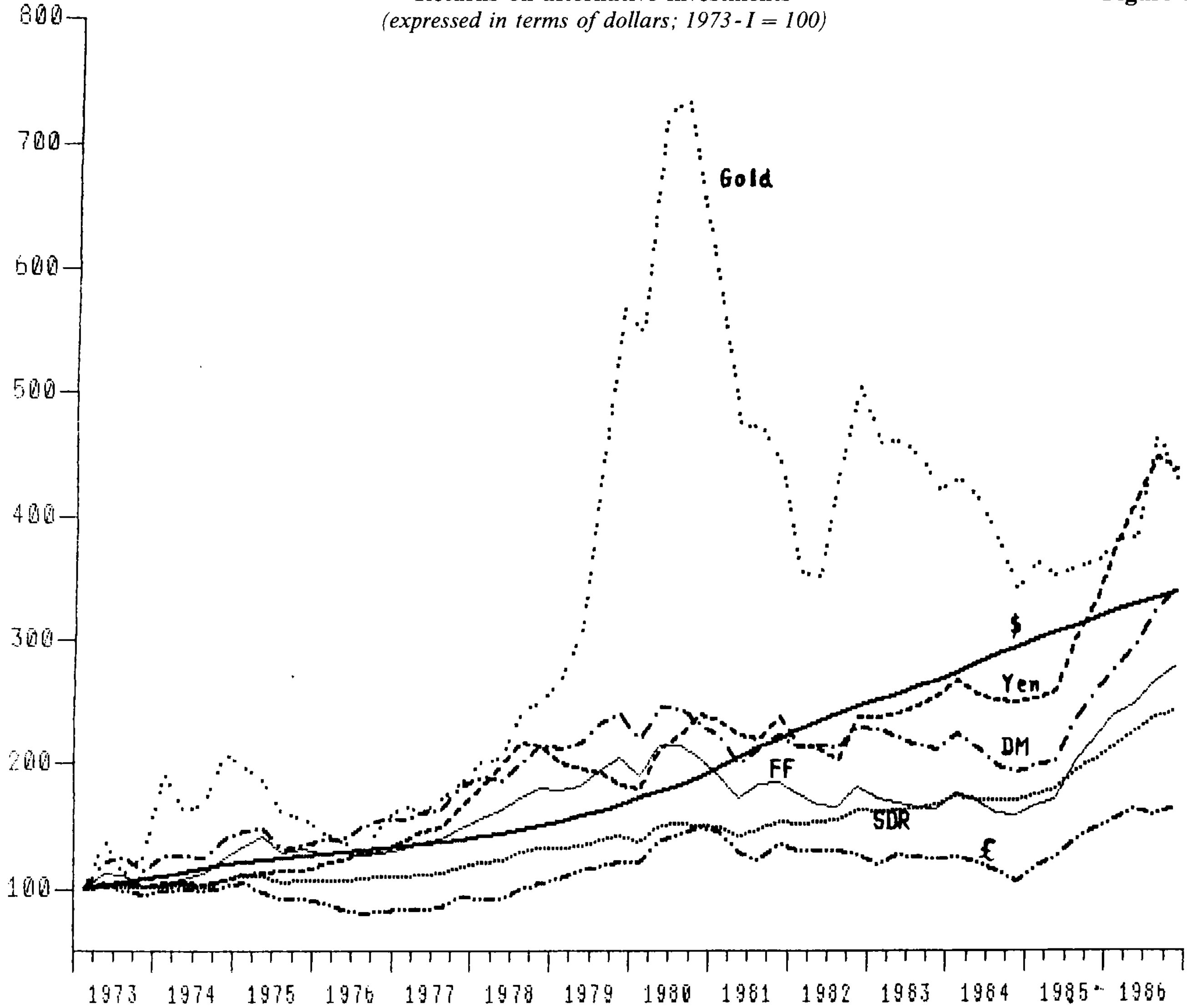
As for international liquidity, it would be very difficult to identify a gold price that would permit an adequate supply of international liquidity while avoiding the Charybdis of inflation and the Scylla of deflation. Indeed, such a price may not exist. (4) Past experience shows there is no reason why the exogenous variables of gold production and private demand should result in liquidity creation matching the needs of trade expansion and balance-of-payments adjustment.

In the past the anchor of monetary and exchange rate stability was really provided by the policies of the leading financial centre: London until the First World War; New York under the Bretton Woods system. We now live in a world where no such clear leadership exists or would be universally acceptable. The key to greater stability in exchange rates and international liquidity therefore lies in greater cooperation between the leading nations which, in turn, will all have to sacrifice some domestic autonomy.

I have even stronger doubts about the feasibility of reviving gold's role in domestic monetary management by requiring some form of gold backing for the money supply. Every central banker knows that monetary management has always required the exercise of judgment and discretion, and that "automatic pilots" do not exist. Monetary rules can be useful, and indeed have been useful in certain periods, as an operational guide and as an anchor for agents' expectations; they do not free central banks from having to decide whether to intervene and how much to accommodate or sterilize. Furthermore, financial innovation and the worldwide integration of financial markets have made it considerably more difficult to identify and control specific monetary aggregates. Gold backing would only complicate an already complex management task, with no obvious advantage for monetary policy decision-making.

Returns on alternative investments **Figure 1**

(expressed in terms of dollars; 1973-I = 100)



And yet, in spite of these considerations, I do not feel that monetary authorities can simply ignore the existence of gold. Though not very liquid, gold still accounts for more than 40 per cent of official international reserves, with the industrial countries holding some 85 per cent. As an outside asset, whose value does not depend directly on any single country's policies or political decisions, gold is still regarded by many central banks as a "last line of defense", since it retains the quality of bestowing credibility on countries that possess substantial holdings. As long as the exchange rates of the key currencies remain unstable and inflation is perceived as an option that a major country could adopt to reduce its public debt burden, this property of gold and its attractiveness as a reserve asset will not disappear.

Indeed, in the long term, gold has yielded as much or more than the other main international reserve assets. In nominal dollar terms an investment in gold made in March 1973 had increased 4.3 times by the end of last year. In terms of dollars, an investment in yen would have appreciated by approximately the same amount (440 per cent), while an investment in either DM or US dollars would have increased 3.4 times (Figure 1).

I cannot help feeling some uneasiness, however, about the drawbacks inherent in maintaining resources frozen in an asset that does not help either to improve the stability of the international monetary system or to cope with other problems, such as economic growth. Indeed, in the past decade some useful mechanisms have been set up to put gold to better use.

As I have already indicated, the ECU creation mechanism shows that gold can be mobilized and international liquidity increased, at least temporarily, without countries necessarily having to dispose of their holdings. Central banks can thus buttress their defenses against speculative pressure on exchange rates without new additions to official reserves. Similar mechanisms can be envisaged for increasing the reserves available to support concerted action to stabilize the exchange rates of the key currencies.

At the same time, gold could also play a role within the IMF. This organization's holdings still exceed 100 million ounces, a part of which could be used as collateral to enhance its fund-raising capacity. Some could even be sold, along the lines of the Trust Fund scheme set up at the end of the seventies, to provide concessional loans to low-income countries.

Thus, while gold has no magic power to restore exchange rate stability or regulate international liquidity, it would be premature to relegate official holdings to a bit part on the international monetary stage.

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(1) On the occasion of the fourth general quota review in 1965, the IMF allowed the US and the UK to spread the gold payment of their quotas over five years. The IMF also made gold deposits with these two countries.

(2) *Report to the Congress of the Commission on the Role of Gold in the Domestic and International Monetary System,* March 1982, p. 13.

(3) Canada and Portugal have both sold about 2 million ounces, while Finland has bought about 1 million ounces. Hungary sold about 1.5 million ounces in 1981 and 1982 and subsequently repurchased a similar amount, while the Philippines sold more than 1.5 million ounces in 1983 and bought over 2 million in the following years. Between 1982 and 1984 Latin American countries sold a total of 3.5 million ounces to meet a part of their debt service obligations; they subsequently replenished their gold reserves in 1985 and the first half of last year, only to draw heavily on them again in the autumn — especially Brazil, which sold 1.2 million ounces, or more than one third of its total stock of official gold. For its part, Japan has recently made large purchases of gold to mint commemorative coins. Indeed, it is estimated that in 1986 private and official Japanese purchases accounted for over 40 per cent of the new production in the world (apart from the socialist countries). Last but not least, Belgium used part of its gold reserves this year to mint ECU coins.

(4) Cf. R. Cooper, *The Gold Standard: Historical Facts and Future Prospects,* Brookings Papers on Economic Activity, no. 1, 1982.

Insurance Activities and the Structure of the Banking System

Note prepared by the Deputy Director General, Tommaso Padoa Schioppa, for the Committee of Inquiry into the Objects and Connected Activities of Insurance Companies and their Capital Interests in Other Enterprises (*)

Rome, June 1987

1. Introduction

The purpose of this note is to provide information that should be useful in understanding the background to the problem of links between credit enterprises and insurance companies, that is to say between the two main categories of operator that make up the Italian financial system.

Essentially, it summarizes the legislation in this regard and the main aspects into which the problem can theoretically be divided. Since the phenomenon is considered primarily from the credit institutions' point of view, the resulting analysis is necessarily incomplete and needs to be complemented by a similar assessment from the standpoint of the insurance companies.

The credit system warrants attention on two scores: first, because it has a highly structured and long-established legal and institutional framework that may also be relevant to the insurance sector, with which it has several similarities; and, secondly, because credit institutions and insurance companies may enter into relationships of the type that the Committee has been asked to examine (ownership links, financial products, marketing, etc.).

The dilemma between specialization and intermingling of the two categories of intermediary appears in different lights, depending whether one is considering ownership links, the production of financial instruments or their marketing. After a brief general introduction, the note devotes a paragraph to each of these three aspects. It is supplemented by brief sketches of the situation elsewhere in the European Community, though they make no claim to be complete.

In a system in which there is not necessarily a perfect match between borrowers' needs and savers' preferences, the link between deficit and surplus sectors is made by the financial intermediaries, which modify one or several of the characteristics of the financial assets they acquire (maturity, risk, liquidity, etc.) and are thus able to offer borrowers financial instruments with different characteristics.

In the various financial systems there are different types of financial intermediaries, identified by the nature of the financial products they offer, the techniques they employ, the legislation governing them and the particular mix of competition and stability sought at any particular time. As a rule, a low level of specialization by intermediaries tends to heighten competition in financial markets whereas a greater degree of specialization, by limiting the commingling considered to be potentially destabilizing, tends to safeguard the stability of the markets and of the intermediaries.

A first major division among financial intermediaries, and one that is to be found in all industrialized countries, is that between insurance companies and credit institutions. As illustrated in detail in the Annex, this distinction is usually clear-cut from the point of view of the *production* of financial instruments, but it has long been less precise with regard to *marketing*.

Credit institutions, in their turn, are delineated according to operational differences, varying over time and space, which define the structural characteristics of the various credit systems. In Italy the Banking Law confirms the distinction

(*) The Committee's conclusions are reported elsewhere in this issue.

between banks, which accept deposits and lend at short term, and special credit institutions, which issue bonds and lend at medium and long term.

In view of the central role the credit institutions play in financial intermediation, they must operate independently, free of constraints and in such a way that resources are allocated correctly.

The 1936 Banking Law, which severed the links between banking and industry that had become so close as to jeopardize the stability of the credit system, was designed to meet this need. Since the links took the form of bank participation in the capital of industrial companies, the Law provided for instruments to control the shareholdings that banks may acquire.

In accordance with the principles underlying the Banking Law, the Credit Committee adopted a resolution on 20 March 1987 to safeguard the autonomy of banks from the point of view of both ownership and credit-granting.

2. Ownership

Legislation

Apart from the Committee's recent decision, the main items of legislation on capital links involving banks are the following:

- Article 33 and paragraph 2(a) of Article 35 of the *Banking Law;*
- *The Credit Committee's decision* of 28 January 1981, as subsequently amended, which lays down rules on the shareholdings banks may hold. Insurance companies are not at present included among the activities collateral or instrumental to banking, and consequently banks may not acquire interests in insurance companies. This possibility does exist for special credit institutions, which were exempted from the provisions of Articles 33 and 35 of the Banking Law by virtue of Law 23/1981; however, the Ministerial Decree of 22 November 1982 invited them to amend their statutes in order to preclude the acquisition of participations that are not in keeping with their functional specialization and objects;
- *Articles 9 and 10 of Law 281/1985.* Individuals or companies that directly or indirectly hold more than 2 per cent of the capital of banks constituted as public limited companies are required to notify the Bank of Italy accordingly.

Italian legislation makes no provision for specific intervention with regard to interests in *existing* banks held by non-banks, including insurance companies.

The current situation

A distinction must be made between banks and special credit institutions. In view of the tenor of the Credit Committee's resolution of 1981, there are no instances of insurance companies in which banks own shares.

Conversely, there are a few banks that are controlled by insurance companies. The largest of these include Banca Mercantile Italiana, Florence, in which La Fondiaria Vita has a shareholding, Banca Subalpina, Turin, partly owned by Reale Mutua Assicurazioni, and Banca di Marino, Rome, in which INA has an interest.

Some special credit institutions have interests in insurance companies, such as Mediobanca in La Fondiaria e Generale and IMI in Le Assicurazioni d'Italia. Fideuram Vita, which is controlled by IMI via Fideuram, is an example of indirect control.

There are likewise notable examples of insurance companies with interests in special credit institutions. In such special cases this possibility is specifically permitted by legislation and company statutes.

3. Products

The insurance products offered by life offices can generally be regarded as being composed of two distinct components; one is financial in the true sense, in which the company's commitment is linked to temporal, monetary, real, exchange-rate and other variables, while the other depends on events associated with human life. The relative weight of each component differs according to the product; in some cases it may even be nil.

Pure financial assets differ from insurance assets in that they are never contingent in any way upon events concerning human life, but depend solely on the time factor and the behaviour of monetary, real, exchange-rate and other variables.

The process of financial innovation that has taken place in Italy no less than elsewhere in recent years has entailed, among other things, the introduction or development of mixed financial instruments combining some characteristics of insurance products with some of pure financial instruments. Hence in practice it may not always be easy to differentiate between the two types of product.

In Italy the sectors in which insurance products compete with or complement banking and financial products are the following:

Households' saving:

— *financial investment:* life insurance companies offer *individual with-profits policies* which display similarities with investment in an investment fund and enable policyholders to enjoy the tax benefits that go with life insurance;

— *pension provision:* life companies normally offer personal and company pension schemes (group policies; only recently have some policies of this kind included a with-profits clause);

— *credit:* life companies offer *loans secured by life insurance policies* and have recently developed *mortgage insurance* for housing loans. Under the agreement between the lending institution and the insurance company, the borrower pays interest direct and concludes a mixed policy whereby the principal of the loan is repaid by the insurance company; the payment of insurance premiums in lieu of instalments of principal brings further tax benefits, in addition to the deduction of interest from taxable income.

Financial and commercial operations:

— *guarantees/indemnities:* when issuing guarantees in favour of the state and public sector bodies, non-life insurance companies write *guarantee policies* that serve the same purpose as bank guarantees but are not subject to the constraints imposed on the banks; the insurance sector offers *guarantees* for real estate and building loans, agricultural improvement loans, medium-term credit to small and medium-sized industrial enterprises; it also offers services similar to those of the banks with regard to customs, VAT, public works and inheritance taxes;

— *loans:* current legislation on local finance (Decree Law 133 of 30 April 1986) provides that insurance companies as well as credit and social security institutions are permitted to lend to communes, provinces and their consortia, subject to authorization from the Ministry of the Treasury.

4. Marketing

Legislation

The Banking Law and the credit institutions' statutes do not explicitly prevent the banks offering financial services that differ from typical banking operations; for example, Article 17 of the Codified Law on rural and artisans' banks states explicitly that such bodies can undertake to represent insurance institutions and insurance companies.

The Bank of Italy has not opposed the development of operational links between banks and insurance companies, in view of the potential beneficial effects of integration for the optimum use of the banking network. The same attitude is evident in the regulations of the main Community countries (see Annex), where increasingly close operational ties have generally been forged between the two sectors, even in countries where there are limits in regard to ownership.

From that point of view, it is recognized that there is a possibility of banks taking interests in brokerage companies performing a purely intermediary role without bearing the risk.

The fact that the banks offer insurance products does not signify that they are engaging in insurance business. The projects they are currently undertaking do not bear the hallmark of professional insurance intermediation, namely involvement in determining the content of insurance contracts. The banks sell their customers standard policies that simply require the customer's signature, and they limit their role to performing the associated payment operations without assuming the risks and obligations that insurance business entails.

As to the specific problem of product distribution, the Bank of Italy has again recently restated the principle that banking activity should, as a rule, be conducted on the bank's premises. Nothing comparable applies to insurance, where selling to customers in their own home seems to have become an established practice.

The setting-up of investment funds has led to the creation or expansion of many companies engaging in door-to-door selling. This is governed by Article 15 of Law 281/1985, which amended Article 18ter of Law 216/1974 (as determined by Article 12 of Law 77/1983) establishing Consob. Such activity is subject to Consob authorization, which is issued in accordance with criteria laid down by the Commission itself in an appropriate regulation.

The current situation

The innovations that can be observed in the credit sector consist of:

— merely publicizing insurance policies and offering the banks' customers the possibility of having the premiums debited from their current accounts;

— or, more recently, the possibility of policies in the name of other persons (Article 1890 of the Civil Code) or on behalf of others (Article 1891 of the Civil Code); in this instance the banks may in some cases bear the cost of the premium themselves or debit the amount from the customer's current account (insurance of deposits, current accounts and exposure vis-à-vis the bank). It is also common for banks to sign up customers for insurance policies linked to the provision of other services, such as credit cards.

As regards the distribution of financial products through channels other than bank branches, home marketing networks set up to sell transferable securities (in particular investment funds units) are tending to widen their field of operations to include activities that complement those of the banks (leasing, factoring) and insurance business.

Since under Italian law the placement of transferable securities is an integral part of banking activity, the potential overlap between the operations of bank branches and those of the sales networks is large.

Since the selling of financial products in the home is a type of business with customers that is not devoid of risk, on several occasions the Bank of Italy has pointed out the need for such networks to be governed by adequate regulations, in particular forbidding them to offer products of a strictly banking nature and limiting their activity to the distribution of homogenous and highly standardized products, such as investment fund units.

Annex
Links between banks and insurance companies in EC countries (*)

Belgium

Ownership

Ordinary commercial banks are not permitted to engage in insurance business via affiliates, but private savings banks (which represent around 30 per cent of the deposit base) can operate in this field via subsidiary companies. The reason for the distinction appears to be that the main activity of the private savings banks — mortgage lending — is considered to have closer similarities with the business of life insurance companies.

Similarly, ordinary commercial banks may not have minority shareholdings in insurance companies, whereas private savings banks may do so, provided the holdings do not exceed prescribed limits. More than half of these institutions belong to a group that also includes an insurance company.

Insurance companies, on the other hand, are free to invest in the capital of banks.

Denmark

1. Ownership

Banks are not permitted to establish separately incorporated insurance companies; the converse also applies.

The problem of financial links between the two sectors is currently under review. In the case of banks the general limits on shareholdings apply, which means that they may not own shares, or grant loans secured by shares, in any company where the amount involved is greater than 15 per cent of the banks' own funds.

A holding company may control both a bank and an insurance company. This is an anomaly, since it has already been pointed out that banks are not authorized to control insurance subsidiaries; this arrangement may therefore be a means of circumventing the restrictions on direct investment.

2. Operational aspects

Insurance companies may not engage directly in any financing activity. More by convention than by law, they do not act as intermediaries for the banks.

Banks may act as intermediaries for insurance companies provided they are offering an ancillary service. Many Danish credit institutions have begun to market insurance-linked savings schemes.

Steps have been taken to ensure that insurance companies and banks belonging to the same financial group are managed separately, although the membership of their boards of directors may be identical.

Federal Republic of Germany

1. Ownership

Banks may engage in insurance business via legally independent subsidiaries. Insurance companies may also carry out credit activities via subsidiaries, but the law forbids them to use their own tied funds to acquire more than 5 per cent of the capital of other enterprises, including banks. However, an insurance company's free funds may be invested without restriction.

The law on the supervision of insurance companies regulates all types of funds so as to ensure the greatest possible security and profitability consistent with company liquidity and the maintenance of an appropriately diversified securities portfolios.

(*) The information is drawn from:
- Proceedings of the EFMA Symposium on Banking and Insurance, Budapest 1986;
- EEC Commission, Banking Advisory Committee, Groupe de Contact, document GC/86/5, March 1987;
- EEC Commission, Banking Advisory Committee, Groupe de Contact, document GC/86/14, March 1987;
- OECD, Committee on Financial Markets, CMF(87)9, January 1987;
- OECD, Committee on Financial Markets, CMF(87)4, February 1987;
- OECD, Committee on Financial Markets, CMF(87)16, April 1987.

In fact, banks' interests in insurance companies and vice versa are relatively small. One of the most prominent examples of insurance companies with participations in banks is that of the Aachen-Münchener insurance company, which recently took a large holding in Bank für Gemeinwirtschaft.

A holding company is obviously permitted to control both banking and insurance companies. The Allianz international group, which owns RAS in Italy, is a prime example.

2. Operational aspects

German banks may act as intermediaries (in an agency function) for insurance companies, but the converse is not permitted.

German insurance companies may carry out certain types of lending, although usually subject to limits and special conditions.

In recent years German banks have thus begun to offer savings schemes coupled with life insurance policies.

France

1. Ownership

Domestic banks are allowed to own even majority interests in insurance companies, but such investments may not exceed 5 per cent of the participating bank's net capital resources. Insurance companies may in turn hold interests in banks and set up separately incorporated banking subsidiaries.

By the same token, there is no legal barrier to the establishment of holding companies controlling subsidiaries in both the insurance and credit sectors.

In reality, there are several examples of mixed corporate groups that include both banks and insurance companies. Insurance companies' shareholdings in banks, which in some cases are on a substantial scale, at present account for the majority of direct relations between the two sectors; so far, there is only one bank in France that controls a life insurance company of any size.

From the point of view of supervision, the French authorities have pledged to limit the risks created by interpenetration between the two sectors via their large exposures policy and the regulations on shareholdings.

2. Operational aspects

In France banks can and do act as intermediaries of insurance companies; by convention rather than by virtue of legal prohibition, the insurance companies do not do the same for the banks. Insurance companies also have the right to engage in some lending activity, though subject to certain limits and conditions.

Cooperation between the two sectors in the form of the joint provision of financial and insurance products has intensified greatly in recent years. In particular, life insurance policies linked to certain long-term lending operations (e.g. mortgage loans) are being marketed by banks via their branch networks.

Greece

Ownership

A large part of the insurance business in this country is carried out by insurance companies owned by major Greek banks, generally controlled by the state.

This accounts for the formal and practical constraints on insurance companies wishing to acquire interests in banks. In theory they are allowed to do so, just as they may set up a credit institution from scratch; they may own shares up to the value of 20 per cent of their own share capital in any bank other than their own parent bank.

At present Greece does not have any holding companies controlling both banks and insurance companies, although there are no legal obstacles to the establishment of financial bodies of this kind.

Ireland

Ownership

The Irish authorities are particularly attentive to the problems of linkage between the banking sector and other sectors of the economy. In theory they seem prepared to allow banks to undertake low-risk life insurance business via a subsidiary, but they reserve the right to impose further requirements (such as a minimum capital requirement) should the need arise.

The same reservations apply to insurance companies' interests in banks.

In general, the supervisory authorities fear excessive financial interpenetration between the two sectors. There is a widespread fear of the contagion risk, in other words the possibility that a downturn in one sector could spread to the other, to the detriment of the entire economy. On several occasions the authorities have felt the need to amend regulations in order to remove existing restrictions on the exchange of information between the central bank and the authorities responsible for supervising the insurance industry.

Luxembourg

1. Ownership

Although the law does not prohibit banks from establishing legally separate insurance companies and vice versa, in practice this does not occur, since the supervisory authorities favour keeping the two sectors separate as far as possible.

This also explains why there are no Luxembourg insurance companies with stakes in banks.

2. Operational aspects

Insurance companies cannot lend direct, nor may they act as intermediaries for a bank.

Luxembourg and Spain differ from the other countries in that each has savings banks whose statutes permit them to engage in limited insurance business.

In Luxembourg too, banks and insurance companies are cooperating at the operational level to offer joint forms of saving and insurance schemes.

The Netherlands

1. Ownership

The policy on government intervention with regard to relationships between banks and insurance companies has recently been reviewed and new guidelines that constitute a first step towards complete liberalization came into force on 1 January 1987. For many years the central authorities (the Ministry of Finance, the central bank and the Insurance Chamber) had adopted a very restrictive attitude in order to ensure a clear separation between the two sectors.

Both banks and insurance companies may now hold interests of not more than 15 per cent of the capital of the investee company (before 1987 the ceiling had been 5 per cent), but in no circumstances may their voting power exceed 5 per cent of the total voting rights.

Insurance companies are not allowed to set up banking subsidiaries. However, in view of the need to recapitalize the mortgage banks, since 1982 both insurance companies and banks have been allowed to set up and/or control special credit banks.

2. Operational aspects

Despite the restrictions and limits on capital links, banks are very active in marketing insurance products, either as agent or as broker. For some time, insurance intermediation has been one of the services offered by bank branches, accounting for 12 per cent of insurance services to households and 20 per cent of those to companies.

The most active Dutch banks in the insurance sector include AMRO Bank and ABN, which can boast of several decades of experience in the sector, organizing staff in such a way that insurance advice can be provided by their own branches. The banks market insurance policies under their own names, operate separate insurance departments and actively publicize the insurance products available to customers.

Portugal

1. Ownership

Banks may not set up legally separate insurance companies, nor do the authorities permit insurance companies to establish banking subsidiaries.

As far as ownership is concerned, banks may not hold more than 20 per cent of the capital of insurance companies. The rationale for this limit appears to be the central authorities' desire to prevent the banks from dominating other sectors of the economy. The same limit of 20 per cent applies to insurance companies' interests in credit institutions. There is no barrier to the creation of financial groups comprising both banking and insurance companies, although the holding company is also subject to the 20 per cent ceiling on shareholdings.

2. Operational aspects

Banks and insurance companies alike are forbidden to engage in each others' business.

Despite the limits imposed by current Portuguese regulations on links between the sectors in question, banks and insurance companies are developing forms of cooperation by offering joint saving and insurance schemes.

Spain

1. Ownership

A very liberal regime applies in Spain as far as capital links between the two sectors are concerned. There is no limit on banks' shareholdings in insurance companies, or vice versa, and holding companies are allowed to control both banks and insurance enterprises.

By contrast with its counterpart in France, the Spanish insurance sector is strongly dominated by the banks, with all the major banking groups having their own insurance affiliates. However, no Spanish banks are owned by insurance companies, whose stakes in the credit sector are still modest.

2. Operational aspects

Recently there has been a substantial increase in the supply and distribution of financial products combining savings schemes with insurance.

The law forbids the banks to act as direct intermediaries for insurance companies; they may only provide customers with insurance advice. However, they may engage in insurance business indirectly via subsidiaries.

Spain also has savings banks whose statutes allow them to carry out limited insurance activities. This right, which depends upon their having separate accounting and supervision for the two kinds of activity, is enjoyed by the largest Spanish savings bank; in response to appeals from enterprises in the insurance sector, more restrictive operational limits were recently imposed on this institution's insurance business.

Conversely, insurance companies may act as intermediaries for banks and, subject to certain conditions, may also engage in certain types of lending to the public.

United Kingdom

1. Ownership

Banks and insurance companies may both set up subsidiaries to carry out insurance and banking operations respectively. Prominent examples include Barclays Insurance Services (owned by the bank of the same name), Hambros Life (owned by Hambros Bank), the life company Aetna Montagu (owned by Samuel Montagu which in its turn was once part of the Midland Bank group), the insurance subsidiaries of Lloyds Bank, the Royal Bank of Scotland, etc.

The financial links between the two sectors have been further intensified by the presence of American banks, which, having encountered legal difficulties and impediments at home, have thus concentrated their investment banking activities in the United Kingdom and also entered the insurance field.

Shareholder links between the two sectors are closely monitored by the supervisory authorities. Size is one of the criteria they apply; a merger between a major bank and a large insurance company would be strongly resisted by the British authorities.

Insurance companies may hold stakes in banks. A prominent example in this regard is

Standard Life, one of the largest Scottish mutual insurance societies, which holds 34 per cent of the shares of Bank of Scotland. Although there is no legal requirement, in practice the UK authorities expect to be consulted in advance if a company intends to take a shareholding of 10 per cent or more in a bank, using moral suasion where appropriate if the proposed move is considered imprudent. The Bank of England and the Department of Trade and Industry have agreed to consult closely on such issues.

2. Marketing

British banks have always been very active in the marketing of insurance products. The steady transformation of the clearing banks into "financial supermarkets" has further accentuated the importance of this branch of activity. Current techniques consist in creating a range of standardized insurance services that can easily be marketed over the counter, thus minimizing costs.

The Rural and Artisans' banks: Market Share and Prospects

Speech delivered by the Deputy Director General, Antonio Fazio, at the 10th National Conference of the Italian Federation of Rural and Artisans' Banks

Cefalù, 2-3 October 1987

Introduction

Italy's first Rural Bank was established on 20 June 1883 at Loreggia in the province of Padua, by a local landowner, Mr. Leone Wollemborg. It was a cooperative for granting agricultural loans, with unlimited responsibility falling jointly and severally on the members.

Among the founders and managers of the new bank — which was called "Cassa Cooperativa di Prestiti" — were the parish priest, the mayor, the local doctor and the secretary of the town council. They were joined by a number of peasants, small landowners and tenant farmers, and by 1884 the number of members had risen to 90.

The bank faithfully copied the Raiffeisen banks, which had spread successfully throughout the German-speaking countries.

In the next few years a dozen or so similar banks were established in the Veneto, Friuli and Tuscany regions.

The 1891 Papal Encyclical "Rerum Novarum" provided a strong impulse to Catholics to commit themselves both politically and socially and a considerable number of credit cooperatives were founded in its wake. The most popular regions were again Veneto, followed by Lombardy, Emilia Romagna, Piedmont and Sicily, as well as Trentino, though at the time it was not part of Italy.

By 1897 there were a total of 904 rural banks in the Italy of the time, 90% of which had been promoted by Catholic groups.

The economic and monetary conditions around the turn of the century further encouraged the expansion of rural and artisans' banks, which, in the absence of any specific legislation regarding the banking sector, were regulated by the Commercial Code.

At the end of 1905 the Official Bulletin of the Ministry of Agriculture, Industry and Commerce listed 1,386 rural banks, distributed as follows:

442 in Veneto

257 in Emilia

186 in Lombardy

139 in Sicily

134 in Piedmont

228 in other regions.

The Catholic-inspired institutes still predominated, with a tendency to form themselves into Federations at both the Diocesan and national levels. The remaining banks also liaised through a Central Federation.

The birth and development of credit cooperatives unquestionably sprang from the social commitment of groups of individuals and farmers, inspired by the example of the German-speaking countries' Raiffeisen banks. Their growth was nonetheless made possible by specific social and economic conditions, such as: the fragmentation of farms and their shortage of capital, which was aggravated by the particularly high taxes imposed by the newly unified Italian state; the failure of the large banks to grant sufficient agricultural loans to small and medium-sized farms; and the widespread practice of usury in a number of regions.

These permanent underlying conditions were periodically exacerbated by unfavourable cyclical developments affecting agricultural products. In addition, there were sporadic attempts in some regions to break up the large estates into smallholdings for the peasants.

The new institutions had the advantage over the system of usury that their lending was adapted to the economic and social environment and stimulated improvements in the quality and quantity of output, while the gains were reinvested in the same activity. Whereas usury left the distribution of wealth unchanged, or even made it worse, the cooperative-based credit system placed a large part of the value added deriving from production and its expansion at the disposal of the borrowers, in other words the producers.

In 1906-7 the crisis and cyclical downturn in the international economy and, consequently, in the Italian economy affected the expansion of the rural banks — particularly in terms of their number. By the end of the first decade of this century the total had fallen noticeably, though it picked up immediately and continued to rise during the First War and the early twenties. In 1915 there were 2,597 rural and artisans' banks; in 1920 there were 3,347 and in 1922 3,441.

By 1930 the total had fallen to 2,164 and in 1936 it was no more than 1,202.

The number of banks and their volume of business undoubtedly suffered from the hostility of the political authorities after 1922. The enthusiasm of some groups of promoters also waned. Development were similar for the other credit institutions, though the fluctuations were less pronounced.

Clearly, the volume of business and the numbers of rural banks were influenced primarily by the economic and credit cycles. However, as we have seen, this type of bank evolved precisely because it responded so well to specific economic and social conditions, albeit with adaptations over the years.

The growth and development of the rural banks was bound, moreover, to be affected by the particularly pronounced monetary and credit vicissitudes of the Italian economy in the years before the Banking Law provided a new institutional basis for banking. As in other industrialized countries, the Italian Banking Law was in response to the Great Depression of the thirties, which affected the whole credit system. The codified Law of 1937 rigidly regulated the operations of the rural and artisans' banks.

After 1936 the number of rural banks continued to decline until 1951. This development was perfectly in line with the experience of other categories of bank, in particular the ordinary banks, operating as joint-stock companies or banking firms, and the cooperative banks — namely, those categories comprising a large number of unit and other small banks.

Prior to the Banking Law the disappearance of numerous banks had resulted in sometimes substantial losses to savers: after 1936 the banks tended to merge or be taken over. In the case of the rural and artisans' banks these mergers and takeovers were nearly always accomplished by similar institutions and usually without loss to depositors.

In 1966 the Interministerial Committee for Credit and Savings in effect blocked the creation of new banks, though the veto was lifted in 1971 for the rural banks, which thus became the only banks whose numbers began to rise again.

1. Market share

Around the turn of the century the rural banks' share of total bank lending was presumably high in some regions. In the field of agricultural loans alone there were periods when these banks held a dominant position.

Around 1926 deposits with the rural banks accounted for more than 4 per cent of total bank deposits, though the market share of loans was somewhat lower, around 2.5 per cent.

The ratio of loans to deposits was lower for the rural banks than that for the rest of the banking system, though high when compared to present values. This was a constant feature of this type of bank and is implicit in their very *raison d'être.*

By 1937 the share of deposits had fallen to 1.75 per cent and that of loans to less than 1.0 per cent. Market shares from 1960 onwards are given in Table 1, which shows that both deposits and loans rose at a rapid and steady pace.

Table 1

Market shares of rural and artisans' banks

(year-end figures)

	Deposits	Loans (1)	Branches
1960	1.2	0.8	8.2
1965	1.5	1.1	8.0
1970	1.8	1.3	7.3
1973	2.1	1.4	7.8
1977	2.7	2.4	8.0
1978	2.9	2.8	8.1
1980	3.4	3.3	8.2
1982	3.9	3.3	8.8
1983	4.4	3.4	9.0
1985	5.2	3.8	9.2

(1) Market shares are calculated gross of bad debts.

The rise in the market share of deposits was particularly marked in the eighties. In 1980 the shares of loans and deposits in relation to the system as a whole were equal: in 1985 the increase of loans to 3.8 per cent had been outstripped by a rise in deposits to 5.2 per cent.

Between 1977 and 1986 the number of rural and artisans' banks climbed from 644 to 711, while the total of other banks remained unaltered or fell slightly. The rise in the number of branches outpaced that of the banks, though it lagged behind the rise in deposits (Table 2).

Table 2

Average number of branches per rural and artisans' bank

	No.of branches (a)	No. of banks (b)	$\frac{a}{b}$
1977	943	644	1.46
1978	977	646	1.51
1979	989	646	1.53
1980	1,001	650	1.54
1981	1,026	662	1.55
1982	1,130	669	1.69
1983	1,158	683	1.70
1984	1,174	691	1.70
1985	1,200	701	1.71
1986	1,329	711	1.87

Since the mid-seventies the increase in the number of rural banks has thus been accompanied by a more than proportionate rise in the number of branches (from 1.46 per bank in 1977 to 1.87 in 1986), but above all by strong expansion in the volume of business.

In real terms (with values deflated using the consumer price index), the rural banks' increase in deposits was 6.3 per cent per year between 1976 and 1985, compared with an increase of 1.4 per cent for the banking system as a whole. Total loans expanded over the same period by 3.2 per cent per year, against 0.4 per cent for the banking system as a whole.

The expansion of the rural banks' intermediation in this period was thus considerably greater than that of GDP, which averaged an increase of 1.6 per cent per year between 1976 and 1985. In the eighties, in particular, deposits and loans increased in real terms at 7.1 and 2.9 per cent respectively (Table 3).

Table 3

Deposits and loans: average annual percentage changes in real terms (1)

	Loans		Deposits	
	Rural banks	Banking system (2)	Rural banks	Banking system (2)
1976-1986	3.2	0.4	6.3	1.4
1980-1986	2.9	1.7	7.1	0.4
1976-1980	3.6	−1.5	5.0	3.0

(1) Figures deflated using the consumer price index. — (2) Monthly sample.

When the market shares are examined on a regional basis it can be seen that the rural banks were spread fairly evenly, perhaps more than their historical and socio-economic roots might suggest.

With the exception of Trentino-Alto Adige at the top end of the scale and Piedmont, Val d'Aosta, Liguria and Sardinia at the other, the rural banks' share of total bank deposits is roughly between 2 and 9 per cent (Table 4), showing that these banks are not purely a regional or local phenomenon.

However, the breakdown of branches and of deposits and loans by major geographical areas shows that 50 per cent of the former and approximately 45 per cent of the latter of all the rural banks are concentrated in North-Eastern Italy, with the Trentino-Alto Adige and Veneto regions leading the field.

At the same time one fifth of operations and one seventh of branches were concentrated in North-Western Italy (Table 5).

Table 4

Market shares of rural banks by region (1)

	Deposits	Loans	Branches
Piedmont	1.9	1.7	2.4
Val d'Aosta	1.8	3.6	2.8
Lombardy	4.2	2.4	5.9
Liguria	—	—	—
Trentino Alto Adige	47.0	36.4	65.5
Veneto	7.2	5.3	11.0
Friuli Venezia Giulia	9.4	7.7	12.4
Emilia Romagna	5.0	3.3	6.8
Tuscany	4.5	3.2	5.7
Umbria	1.9	1.5	4.1
Marche	6.9	5.9	9.2
Lazio	3.0	1.5	5.1
Abruzzo	3.3	3.0	5.0
Molise	2.0	1.2	6.8
Campania	3.2	2.8	7.9
Puglia	5.8	3.9	6.5
Basilicata	9.1	8.8	16.9
Calabria	6.4	5.6	13.5
Sicily	6.1	5.2	9.2
Sardinia	0.1	0.1	0.7
Total . . .	**100,0**	**100,0**	**100,0**

(1) Figures at end-1985.

2. Balance sheet structures

Between 1980 and 1986 loans by the banking system as a whole rose from 42.3 to 44.6 per cent of deposits, largely as the result of a decline in deposits during the eighties and an increase in loans following the removal of the credit ceiling.

Table 5

Distribution of deposits, loans and branches of rural banks by region (1)

	Deposits	Loans	Branches
Piedmont	3.3	3.5	2.2
Val d'Aosta	0.1	0.1	0.1
Lombardy	18.4	18.3	11.7
Liguria	—	—	—
North-West Italy . . .	**21.8**	**21.9**	**14.0**
Trentino Alto Adige	19.8	18.2	30.4
Veneto	11.0	11.1	9.7
Friuli Venezia Giulia	4.4	5.1	3.8
Emilia Romagna	8.9	8.8	7.4
North-East Italy . . .	**44.1**	**43.2**	**51.3**
Tuscany	6.7	7.1	5.2
Umbria	0.5	0.5	0.8
Marche	3.3	3.7	3.2
Lazio	5.8	5.4	3.8
Central Italy . . .	**16.3**	**16.7**	**13.0**
Abruzzo	1.0	1.0	1.1
Molise	0.1	0.1	0.2
Campania	3.4	3.3	3.8
Puglia	4.4	3.8	3.0
Basilicata	1.0	1.4	1.8
Calabria	1.9	2.1	2.8
Sicily	6.0	6.5	8.9
Sardinia	. .	. .	. .
South and Islands	**17.8**	**18.2**	**21.7**
Total . . .	**100.0**	**100.0**	**100.0**

(1) Figures at end-1985.

The pattern for the rural banks is exactly the opposite. Between 1980 and 1986 the ratio fell from 52.6 to 40.6 per cent (Table 6). Taking the five leading rural and artisans' banks, with total customer deposits in excess of 200 billion lire at the end of 1986, the trend exactly matches that for the category as a whole: the ratio fell from 50.1 to 37.3 per cent.

It is worth recalling that this trend is essentially due to the strong growth of the denominator, in other words of deposits, which will be explained later.

Table 6

Balance sheet ratios (1)

	Interbank assets/ Deposits		Interbank liabilities/ Deposits		Loans/ Deposits		Securities/ Deposits		Bad debts/ Loans		Capital + reserves/ Deposits	
	1980	1986	1980	1986	1980	1986	1980	1986	1980	1986	1980	1986
Banking system + rural banks	18.0	19.8	22.6	25.1	42.3	44.6	32.7	31.3	3.6	6.6	7.7	12.9
Total rural banks	21.4	22.9	1.3	1.6	52.6	40.6	30.1	42.7	2.2	6.6	7.4	13.6
5 leading rural banks (2)	17.4	11.6	1.0	2.2	50.1	37.3	34.3	57.3	1.6	4.3	6.7	12.3
ICCREA (Central Institute for Rural and Artisans' Banks)	61,6	67,3	96.0	96.3	30.7	14.5	13.7	30.4	1.5	5.8	3.6	4.3

(1) Year-end figures. — (2) Rural banks with customer deposits over 200 billion lire at end-1986: Rural and Artisans' Banks of Rome, Treviglio, Cantú, Faenza and Carate Brianza.

Table 7

Securities held by rural banks) (1)

(billions of lire)

	Treasury bills		Treasury bonds		Treasury credit certificates		Other		Total	
	Stocks	%	Stocks	%	Stocks	%	Stocks	%	Stocks	%
1980	554.6	22.4	459.4	18.6	642.9	26.0	818.1	33.0	2,475	100
1981	836.7	27.8	545.1	18.1	806.2	26.8	820.0	27.3	3,008	100
1983	1,217.9	18.1	681.8	10.1	3,585.0	53.2	1,248.3	18.6	6,733	100
1986	579.3	4.6	1,119.0	8.8	9,170.0	72.4	1,796.7	14.2	12,665	100

Securities held by the rest of the banking system (1) (2)

(billions of lire)

	Treasury bills		Treasury bonds		Treasury credit certificates		Other		Total	
	Stocks	%	Stocks	%	Stocks	%	Stocks	%	Stocks	%
1980	33,596	27.4	7,827	6.4	12,439	10.2	68,544	56.0	122,406	100
1981	37,294	28.6	6,923	5.3	13,989	10.7	72,230	55.4	130,436	100
1983	45,654	24.0	7,263	3.8	55,208	29.1	81,769	43.1	189,894	100
1986	29,827	13.6	11,566	6.1	93,294	42.6	84,525	37.7	219,212	100

(1) Face value. — (2) Monthly sample.

The volume of interbank lending is fairly high for the rural banks in general, though in line with the overall banking system. Borrowing, as to be expected, is negligible. The five leading rural banks are moderately active in interbank lending, though below the average for the category. The Central Institute for Rural and Artisans' Banks raises 96 per cent of its funds in this market.

During the period under examination, investments in securities followed the inverse course of lending. In the case of the rural banks, the increase equalled the fall in the ratio between loans and deposits, while the ratio of securities to deposits for the overall banking system recorded a slight drop.

Over the past six years the rural banks have notably reduced their investments in Treasury bills and, less drastically, in bonds. They have, by contrast, considerably increased their investment in Treasury Credit Certificates, which have generally carried high yields (the rural and artisans' banks have always enjoyed exemption from the securities investment requirement as well as from the obligation to invest in securities issued by medium-term credit institutions). At the end of 1986 the face value of the portfolio of Treasury Credit Certificates made up almost three quarters of all the securities held by the category (Table 7).

In 1980 bad and doubtful debts were below the average for the banking system as a whole, but by the end of 1986 had reached the same level. They remained relatively low for the five leading rural banks, in spite of a sharp increase over the period.

The strength of the rural banks' capital base followed a path parallel to that of the system, though at a slightly higher level. At the end of 1986 the rural banks registered a ratio of capital and reserves to deposits of 13.6 per cent, against 12.9 per cent for the banking system as a whole.

3. Customers

In 1986 the average borrower of the rural and artisans' banks had loans of 85 million lire — a third of the average amount taken up by individual customers from the banking system as a whole (Table 8).

Table 8

Distribution of loans by size (1)

(percentages)

	1975		1980		1986	
	Rural banks	Total	Rural banks	Total	Rural banks	Total
Over 50 billion	—	13.6	—	14.3	—	13.0
Between 10 and 49 billion	—	16.9	—	16.0	0.4	17.9
Between 1 and 9.99 billion	0.5	29.6	0.3	27.3	4.6	29.6
Between 250 and 999.9 million	6.3	17.3	11.2	17.6	28.9	19.6
Below 250 million	93.2	22.6	88.5	24.8	66.1	19.9
Total . . .	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Average size of loans (1)

(millions of lire)

	1975	1980	1986
		in nominal terms	
Rural banks	27.9	52.3	85.0
Total banking system	122.7	171.6	237.9
		in real terms (2)	
Rural banks	27.9	23.4	19.8
Total banking system	122.7	76.7	55.5

(1) Central Credit Register figures at year-end. — (2) Figures deflated using the consumer price index.

Rural bank borrowers thus accounted for approximately 10 per cent of the total number of borrowers from the banking system, or three times their share in the value of total loans.

In the banking system as a whole the average total exposure per borrower approximately doubled in nominal terms between 1975 and 1986, while it halved in real terms. For the rural banks it tripled at current prices while falling by a quarter in real terms (Table 8).

These figures are taken from the Central Risks Office; hence they exclude loans below a minimum amount, which has gradually increased over the years. The portion of loans excluded is more significant in the case of the rural banks. In other words, the average size of rural bank loans has increased by less than shown, but their share of total loans is definitely more than 10 per cent.

Apart from the decline in the average borrowing requirement per unit of output during the years of credit restrictions, another reason for the recent fall in the size of the banking system's average loan in real terms has been the switch by major operators to other forms of finance.

In 1986 two thirds of rural banks' loans were for amounts less than 250 million lire and 95 per cent less than one billion: for the banking system as a whole the proportions for the two thresholds were approximately 20 and 40 per cent respectively. In 1975 and 1980 and earlier, the proportion of loans below 250 million was larger than today bearing in mind the differences in the value of money (Table 8).

For the banking system as a whole, however, the share of loans below 250 million was not much higher than it is now. When loans are divided according to size, the same pattern emerges as for the average amount of loans; in other words, the larger banks also show an increase in the percentage of small loans.

With regard to deposits there is very much less difference between the rural banks and the remainder of the banking system. In 1980, 80 per cent of rural banks' total customer deposits and 60 per cent of the banking system's consisted of deposits of less than 50 million lire. In 1986 these figures were 60 and 53 per cent respectively (Table 9). In the same year deposits of between 500 million and 1 billion lire accounted for 2 per cent of the rural banks' and 4 per cent of the banking system's total deposits.

Table 9

Distribution of deposits by size (1)

(percentages)

	1980		1986	
	Rural banks	Total	Rural banks	Total
Billions of lire				
Over 50	—	2.0	—	2.0
10 — 49.9	—	3.4	0.2	2.8
1 — 9.9	0.5	6.1	1.7	6.9
millions of lire				
500 — 999.9	0.7	3.0	2.0	3.9
250 — 499.9	1.7	4.4	4.2	5.5
100 — 249.9	6.3	9.6	14.0	12.1
50 — 99.9	9.9	10.4	18.2	13.4
0 — 49.9	80.9	61.1	59.7	53.4
Total . . .	**100**	**100**	**100**	**100**

(1) Central Credit Register figures.

An analysis of loans by sector shows that in 1986 the rural banks' lending to non-financial firms accounted for 86 per cent of the total, while for the banking system this figure was 85 per cent. By contrast, rural bank lending to households and non-profit institutions accounted for 12 per cent of the total as compared with 4.5 per cent in the case of the banks (Table 10).

There is a substantial similarity between rural banks and the rest of the system when lending to non-financial firms is analyzed by sector. The proportion of loans to agricultural enterprises, furniture manufacturers and suppliers of plant and equipment is higher for the rural banks, whereas it is lower in the case of the metal and engineering industries. Since these figures are derived from Central Risks Office data, however, it should be borne in mind that a large number of small loans are excluded, and these may be assumed to accentuate the differences.

Table 10

Distribution of loans by sector (1)

(percentages)

	1980				1981				1983				1986			
	Granted		Disbursed		Granted		Disbursed		Granted		Disbursed		Granted		Disbursed	
	Rural banks	Total system	Rural banks	Total system	Rural banks	Total system	Rural banks	Total system	Rural banks	Total system	Rural banks	Total system	Rural banks	Total system	Rural banks	Total system
General government	1.5	5.7	1.4	6.2	1.3	5.1	1.2	5.1	1.3	5.1	1.0	5.5	1.6	3.6	1.1	3.3
Financial and insurance companies	0.2	2.7	0.1	2.9	0.2	2.6	0.1	2.8	0.2	3.2	0.2	3.4	0.3	7.2	0.4	7.4
Non-financial firms	85.8	88.6	84.2	87.5	86.7	89.3	85.2	88.5	86.9	88.7	85.2	87.0	88.8	86.6	86.2	84.8
of which:																
Agriculture forestry and fishing	13.4	3.6	14.1	4.1	12.6	3.5	12.9	4.2	11.9	3.5	12.2	4.3	9.2	3.0	11.0	4.1
Food	5.7	7.1	5.3	6.8	5.4	6.9	5.1	6.7	5.3	6.5	4.9	6.4	4.9	6.5	5.0	6.2
Furniture	5.5	1.3	5.3	1.4	5.4	1.3	5.3	1.4	5.2	1.2	5.2	1.4	4.3	1.1	4.8	1.4
Metal and engineering	12.4	21.0	11.9	20.1	12.5	20.3	12.0	19.2	11.6	18.7	11.2	17.6	10.8	18.4	11.5	16.2
Plant and equipment	13.3	8.3	13.5	10.1	13.6	8.1	14.0	9.8	14.0	8.3	14.4	10.2	13.3	8.2	14.4	10.9
Distributive trades	19.3	15.7	18.5	15.3	19.5	16.7	18.5	16.1	20.5	16.7	19.3	16.9	18.9	16.4	19.7	17.7
Non-profit institutions and households	12.5	3.0	14.3	3.4	11.8	3.0	13.5	3.6	11.6	3.0	13.6	4.1	9.3	2.6	12.3	4.5

(1) This table is based on Central Credit Register data. — On account of the "minimum survey threshold", which was 50 million lire until February 1984, when it was raised to 80 million, the figures for the rural banks represent little more than 50 per cent of the total.

When examined geographically, the share of lending to agriculture, to the food and similar industries, to plant and equipment undertakings and to retail trades is higher in the South than in the rest of Italy. On the other hand, the share of loans to the engineering and other sectors in which enterprises are generally larger is lower, as these are less prevalent in the South.

The above figures show that on the deposits side the rural banks serve the same market as the banking system as a whole, whereas they tend, with regard to loans, to cater to operators with more limited requirements, albeit from all economic sectors.

The rural banks' original vocation as a source of agricultural loans remains, though it is now less dominant, on account of the limited requirements of this sector in relation to the overall credit market.

Without going into the question of statutory limitations and questions of location, it would appear that the principal function of the rural banks is to supply credit to individuals, agriculture and cottage industries, as well as to industry and commerce in the initial phases of their development.

4. Productivity and strategy

Sixty per cent of rural and artisans' banks' offices are accounted for by unit banks and 80 per cent by banks with one or two branches (Table 11).

Table 11

Distribution of rural banks by number of branches

No. of branches	No. of banks	%	Cumulative %
1	416	59.3	59.3
2	148	21.1	80.4
3	85	12.2	92.6
4	30	4.3	96.9
5	13	1.9	98.8
6	5	0.7	99.5
7	1	0.1	99.6
8	2	0.3	99.9
14	1	0.1	100.0

An examination of the rural banks' locations shows that more than half of the banks are in towns and villages with one or two banking establishments and only 1.5 per cent are found in locations with 100 or more offices.

Both now and in the future, the competitors of the rural banks are the cooperative and savings banks, 40 per cent of whose offices are situated in very small towns and villages. (Table 12).

At the end of 1985 each rural bank office had average deposits of 21.4 billion and loans of 8.3 billion lire. The rest of the banking system had almost double the amount of deposits per office and roughly triple that of loans (Table 13).

Examination of the pattern of loans and deposits by region reveals a marked disparity in the rural banks, with average deposits per branch of more than 33 million lire in affluent Lombardy and less than 6 in Sardinia, while the picture for the rest of the banking system is more homogeneous. Lending by rural banks, too, shows a greater spread than for the banking system as a whole.

The average number of employees per branch is much lower in the rural banks: the volume of business, calculated as loans to non-bank customers plus total customer deposits per employee, is consequently much higher. At the end of 1986 this figure stood at 3.3 billion lire against 2.4 billion for the total banking system (Table 14). Average labour costs are also lower for the rural banks.

Table 12

Distribution of bank branches by "banking size" of locality

(percentages at end-1985)

	Localities classified by number of bank branches					
	1 - 2	3 - 4	5 - 19	20 - 99	over 99	Total
Public-law banks	25.6	16.5	23.8	13.3	20.8	100.0
Banks of national interest	0.6	4.8	28.8	25.2	40.6	100.0
Ordinary credit banks	20.8	17.9	24.7	15.3	21.4	100.0
Cooperative banks	41.7	21.3	22.5	9.0	5.5	100.0
Savings banks	39.3	19.0	21.6	12.1	8.0	100.0
Total...	**31.4**	**18.0**	**23.3**	**13.0**	**14.3**	**100.0**

Table 13

Indicator of productivity of bank branches (1)

		Rural banks		Rest of the banking system	
	No. of banks	Deposits branch (2)	Loans branch (2)	Deposits branch (2)	Loans branch (2)
Piedmont	17	31.3	12.8	40.6	18.6
Val d'Aosta	1	23.4	9.9	36.1	7.6
Lombardia	79	33.5	13.1	47.8	34.0
Liguria	—	—	—	40.1	19.1
Trentino A. Adige	181	13.8	5.0	29.6	16.5
Veneto	63	24.3	9.6	38.4	21.0
Friuli Ven. Giulia	31	24.7	11.1	33.7	18.8
Emilia Romagna	44	25.5	9.9	34.8	20.9
Tuscany	38	27.6	11.4	35.5	20.9
Umbria	5	14.3	5.6	31.2	15.9
Marche	22	22.3	9.8	30.5	15.8
Lazio	33	33.2	12.0	57.2	41.6
Abruzzo	11	19.1	7.5	29.9	13.0
Molise	3	9.4	4.0	34.5	24.5
Campania	39	19.5	7.2	50.5	21.6
Puglia	28	31.4	10.6	35.4	18.1
Basilicata	16	11.3	6.2	23.2	13.1
Calabria	28	14.7	6.5	33.7	16.9
Sicily	61	14.4	6.1	22.6	11.3
Sardinia	1	5.8	2.6	50.5	19.0
Total...	**701**	**21.4**	**8.3**	**39.2**	**22.8**

(1) End-1985 figures — (2) Figures in billions of lire.

In the larger banks, operations other than deposit-taking and lending are on a larger scale. Leaving aside this component (and taking production costs for services as being equal to the related income), the costs of operations are much lower for the banking system as a whole: in 1986 they accounted for 2.30 per cent of the average funds invested in money management (loans, investment securities, interbank assets), against 3.06 per cent for the rural banks (Table 14).

The average cost of deposits for the rural banks, which in 1980 was virtually the same as for the banking system, recorded a sharp relative increase in 1983 and was still 1.5 percentage points higher in 1986. While in the banking system this cost fell by 2.2 percentage points between 1980 and 1986, the decrease was only 0.8 points for the rural banks. This difference was to some extent accentuated by interbank borrowing, which is negligible for the rural banks.

On the other hand, the average yield on lending to non-bank clients fell by 1.7 percentage points for the rural banks over the same period and by 4.8 points for the system as a whole.

In 1986 lending by rural banks yielded 2 percentage points more than did that by the banking system as a whole. The average yield on investment securities was also constantly higher.

All of these considerations mean that during the period in question the profitability of the rural banks' money management was noticeably higher than that of the rest of the system, even though the gap was reduced from 2 percentage points in 1980 to 1 point in 1986 (Table 14).

This higher earning capacity of rural banks' money management has enabled them to absorb their higher costs of intermediation without serious difficulty. The higher yield on securities and the benefits deriving from their exemption from the compulsory reserve (which is reflected in a larger proportion of loans and investments at market rates) have enabled the rural banks to pay higher rates on deposits: together with other factors, this has contributed to their rapid rise, in spite of the phase of banking disintermediation.

Despite the provision limiting loans to non-members to 25 per cent of deposits, the marked decline in the loan/deposit ratio provided room for a further expansion in such lending to more than half of total loans. This is presumably how the rural banks have been able to maintain their share of loans in the banking system.

The cost of loans is noticeably higher than the average for the banking system. In the case of the rural banks most loans are granted to support production and are fairly small, while the figure for the overall banking system includes a high proportion of large short-term loans at very low rates for not directly productive purposes.

The rural banks' capacity to increase their share of deposits has benefited from their mainly small town and village locations, where other means of investing savings pose less of a threat. The cooperative banks are in a similar position and their deposit rate policy has been much the same as that of the rural banks.

Table 14

Accounting indicators

		Total rural banks	5 leading rural banks	Banking System including rural banks
Average cost of deposits	1980	10.87	10.96	10.75
	1981	12.76	12.58	12.71
	1983	14.09	13.48	12.34
	1986	10.02	10.14	8.52
Average cost of non-bank deposits	1980	10.93	11.03	10.50
	1981	12.78	12.61	12.15
	1983	14.16	13.57	12.87
	1986	10.03	10.14	8.76
Average lending rate on non-bank loans	1980	21.08	21.04	22.10
	1981	24.47	23.94	24.94
	1983	24.71	23.54	23.29
	1986	19.33	18.79	17.31
Average yield on securities	1980	12.28	12.69	11.13
	1981	14.43	14.59	12.33
	1983	17.80	17.48	15.40
	1986	13.37	13.40	12.61
Profitability of money management (1)	1980	6.06	5.73	4.14
	1981	6.94	6.48	4.35
	1983	6.17	5.95	4.30
	1986	5.35	5.09	4.39
Cost of operations net of income from services (1)	1980	3.05	3.17	2.48
	1981	3.39	3.29	2.18
	1983	3.40	3.10	2.63
	1986	3.06	2.79	2.30
Operating profitability (1)	1980	3.01	2.56	1.66
	1981	3.55	3.19	2.17
	1983	2.77	2.85	1.67
	1986	2.29	2.30	2.09
Intermediation rate	1980	92.13	91.07	84.11
	1981	90.53	89.83	83.54
	1983	88.81	89.04	82.32
	1986	88.72	90.08	83.26
Equilibrium yield (2)	1980	13.84	14.24	13.09
	1981	16.00	15.92	14.48
	1983	17.20	16.51	14.48
	1986	12.88	12.63	10.48
Equilibrium differential (3)	1980	2.97	3.28	2.34
	1981	3.24	3.34	1.77
	1983	3.11	3.03	2.14
	1986	2.86	2.49	1.96
Average cost of employees (in millions of lire)	1980	24	24	30
	1981	29	29	33
	1983	39	38	46
	1986	50	48	60
Volume of business per employee (in millions of lire) (4)	1980	1,670	1,521	1,258
	1981	1,805	1,710	1,366
	1983	2,266	2,112	1,697
	1986	3,304	2,822	2,363

(1) Calculated as a percentage of average assets invested in money management: loans net of bad debts, securities and interbank assets. — (2) Minimum yield on capital employed required to cover fund-raising and operating costs. — (3) Minimum deposit/lending rate differential needed to break even. — (4) The volume of business is the sum of loans to non-bank customers plus total customer deposits.

The possibility of granting a sizeable share of loans to non-members has enabled the rural banks to maintain a position in all the non-financial sectors not dissimilar to that of the banking system as a whole, albeit with smaller individual loans.

The usual indicators show that the rural banks can compete with the banking system both in deposit-taking and the granting of credit.

The higher return the rural banks pay on deposits can probably be attributed to the lower cost of their reserves, as well as to the high yield they earn on their assets.

With regard to lending, one of the typical features of rural banks, that of granting low-interest loans, appears to have been eroded.

The higher average return on their lending is due to the smaller average size of loans and the absence of speculative lending. In any case, there is no evidence, at least in the average data, of preferential treatment for clients.

The rural banks have thus pursued a policy of enlarging their deposit liabilities, by transferring to depositors the cost benefits deriving from the banks' special institutional status. In the same way, the fact that a large number of loans are granted to non-members offers less justification for a policy of preferential treatment.

The picture I have described falls within a general framework — which applies to the banking system as a whole — of unfavourable conditions for small borrowers.

One alternative, which would perhaps have more closely reflected the original aims of the rural banks, would have been to concentrate more on their typical customer base made up of small borrowers; deposits could have been appropriately matched.

5. Problems and prospects

The fact that the rural banks are located primarily in small towns and villages, where borrowers and lenders are personally acquainted, makes it easier for them to tap a credit market that is of little interest to the larger banks or at any rate more difficult for them to penetrate.

Nonetheless, this direct acquaintance between bank personnel and potential borrowers should be restricted to stimulating the initial contact. All too frequently it constitutes a breach in the system's defences.

In examining applications for loans rural banks do not always seek to establish a clear enough picture of borrowers' investment plans or even of their operations. Financial plans are either non-existent or insufficient and capital structure tends to be the sole yardstick used.

Boards of Directors often fail to keep tabs on loans and problems sometimes arise because of inadequate administrative structures. Boards of Auditors, too, often fail to make proper checks.

Inadequate procedures and controls relative to lending are also found in other types of bank with large numbers of small units operating on a local basis.

Notwithstanding continuing problems in many areas, credit should be given to the rural banks for the considerable efforts being made to improve and computerize their systems of information, accounting and internal controls.

In the less prosperous areas of Italy, where the external environment can have a negative influence on rural banks' profitability, the proportion of these having serious internal organization problems is too large.

In order to ensure the vitality of the rural banks, the category's federative bodies and control institutions should examine the need for radical improvements in some structures.

However, there are instances of bad organization and negative tendencies in lending, with a high proportion of bad and doubtful debts, even in the more affluent areas of the country.

Profitability is usually very satisfactory but, on account of the shortcomings just mentioned, it may be accompanied by a high level of asset risk.

Where there are no indications to the contrary, this revenue can form a basis for financing organizational improvements and further expansion of operations.

Expansion should first of all aim to increase loans to existing customers at a normal pace. This would promote local development, especially in areas where very small businesses are numerous, since there is a general trend among small enterprises to increase their demand for credit.

Figures released by the Company Accounts Clearing House (Centrale dei bilanci) show an increasing trend among industrial firms with fewer than 20 employees to borrow from the banks. Between 1982 and 1985 their overall indebtedness to banks rose, in relation to added value, from 77 to 96 per cent.

Another field in which operations could be expanded in real terms is that of intermediation services for categories and areas currently under-served.

However, it will be essential in this case to make full use of the rural banks' institutional privileges and to grant credit at moderate interest rates, which would be a return to the pursuit of their original aims.

There is a danger that this could lead to an increase in the riskiness of loans. There have been cases of over-expansion in lending to certain specific categories, especially in the South. It should, however, be noted that these are almost always linked to organizational factors or to inadequate investigation of borrowers' affairs, or to the defence of interests in conflict with the proper use of savers' funds.

The increase in competition that may be expected in the next few years, as a result of the freedom for other types of institution to enter the credit market, will hardly affect the smaller towns and economic sectors that form the natural terrain for rural banks. Nonetheless, the need for efficiency remains paramount.

The rural banks' share of operations other than credit intermediation is much lower than in the rest of the banking system. This is perfectly in line with their nature, but the development of communications and the growth of local economies now mean that even the smallest firm requires more than just credit. These additional services may be offered by individual rural banks, but often and more productively they can be supplied on a cooperative basis.

With regard to the risk of possible competition to the banking system in general and to the rural banks in particular from other types of intermediation, the general approach is still that of forming joint ventures in para-banking operations or other forms of savings management. The importance of these new forms of intermediation and lending and their potential for growth should nevertheless not be extrapolated on the basis of their performance during the last four or five years. Since they only came into operation during this period, it was natural that their growth rate should have been particularly high. Recent indications in some sectors suggest that the saturation level is being approached, or, in other words, that the new operations have reached a steady state.

Conclusions

The idea of creating small units to provide loans, principally to the agricultural sector, was conceived at a time when the practice of usury made such initiatives especially valuable.

The new banks, whose creation — albeit with considerable difficulties — was sparked by examples in other countries and by the generosity of socially motivated groups of individuals, made a significant economic impact and an even greater social one by encouraging the first contacts between small enterprises — initially in agriculture, but later in both industry and services — and the credit sector.

The changing fortunes of the credit system as a whole affected the rural banks as much as other kinds of bank, partly owing to Parliament's failure to realize that they could come to harm during destabilizing cyclical phases. These periods of crisis thus led to the disappearance of numerous small banks, whose higher concentration of loans and administrative shortcomings rendered them more vulnerable, with consequent losses for depositors.

The 1936 Banking Law and the Codified Law of 1937 gave a fair measure of stability. The operational limits to rural banks' activities were scaled in accordance with their specific function and prevailing economic requirements, without ignoring the difficult period through which the banking system in general and the rural banks in particular had recently passed.

Between the two crises of 1929 and 1960 there was no significant change in the rural banks' share of the market, which stood at around 1 per cent, for both deposits and loans.

After 1960 their growth was steady, presumably as a result of their greater penetration of the market for small loans and the development of local economies. The seventies saw increases in the numbers of both banks and branches as well as a sharper rise in market share.

More recently, there has been a tendency for the rural banks to acquire an even greater share of deposits. This has been achieved through the application of competitive interest rates and has enabled them to expand lending outside the traditional sphere of members.

Nonetheless, the share of loans in the credit market as a whole has failed to keep pace with the growth of deposits and the rural banks' traditional competitive edge in lending terms shows signs of erosion. Since the mid-seventies and particularly in more recent years, the rural banks have registered a steady growth in real terms, and there is probably still room for expansion.

However, further penetration in the area of small loans to all economic categories, and the supply of services suited to today's economic requirements extending to smaller towns and villages, calls for a more determined return to the rural banks' original function of offering credit at attractive rates to larger numbers of members: these should be sought on the local level (or even wider afar, given new operative techniques) from among broader categories of small operators.

In this connection, preferential treatment, especially from the standpoint of monetary control, can be justified only insofar as the rural banks' original aims are coherently pursued and the spirit of mutual assistance maintained.

Statement by the Governor, Carlo A. Ciampi, before the 5th Committees of the Italian Senate and Chamber of Deputies in joint session on 6 October 1987

Part of the fact-finding procedure preceding the examination of the budget for 1988

1. In my statement before these Committees last year, I emphasized the need to eliminate the primary source of disorder in the public finances, namely the deficit net of interest payments. The objective of eradicating this primary state sector deficit by 1990 had been referred to in the financial adjustment plan presented by the Government several months earlier. The gradual easing of the pressure exerted by Treasury borrowing on the capital markets would permit a reduction in the burden of interest payments, a legacy of the debt accumulated over years past.

Thanks to the decline in interest rates that took place in 1986 in conjunction with a sharp falling off in the inflation rate, it was possible in 1987, for the first time in many years, to keep interest expenditure virtually unchanged notwithstanding an expansion of the public debt from 767 to 878 trillion lire. Interest outlays (including those on postal deposits) will be about 75 trillion lire this year, as against 73.5 trillion in 1986. Adjusting the figures by deducting the revenues of the newly introduced tax on income from government securities, the actual interest burden for this year should be approximately the same as last year. As a proportion of GDP, gross interest expenditure will decline from 8.2 to 7.7 per cent (Table 1).

According to official estimates, the borrowing requirement net of interest payments, which constitutes the basic source of the disequilibrium in the public finances, will be reduced only marginally, from 36 to 34 trillion lire. The government financial plan had, by contrast, called for a reduction of some 10 trillion lire, which would have made it possible to keep the overall borrowing requirement below 100 trillion lire.

Table 1

State sector borrowing requirement, interest payments and public debt

	Borrowing requirement (billions of lire)	GDP ratio %	Interest payments (billions of lire)	GDP ratio %	Borrowing requirement net of interest (billions of lire)	GDP ratio %	Public debt at 31 December (billions of lire)	GDP ratio %
1980	35,886	9.2	19,235	4.9	16,651	4.3	212,671	54.5
1981	49,596	10.6	27,328	5.8	22,268	4.8	267,755	57.2
1982	70,692	13.0	38,914	7.1	31,778	5.8	342,173	62.8
1983	88,257	14.0	47,105	7.5	41,152	6.5	433,601	68.7
1984	95,388	13.2	57,579	8.0	37,809	5.2	531,940	73.8
1985	110,237	13.7	63,558	7.9	46,679	5.8	656,562	81.5
1986	109,586	12.3	73,525	8.2	36,061	4.0	767,432	85.8
			(73,206)	(8.2)	(36,380)	(4.1)		
1987 (1)	109,000	11.2	75,000	7.7	34,000	3.5	878,000	90.4
			(73,200)	(7.5)	(35,800)	(3.7)		

(1) Based on Treasury estimates.
N.B.: The figures in parenthesis show interest payments and the non-interest borrowing requirement net of the revenue from the tax on interest income from government securities.

The aim of bringing the state sector borrowing needs back down towards 10 per cent of GDP, unfulfilled this year, has been set forth again in the Finance Bill for 1988. Admittedly, however, this implies an abandonment of the more ambitious goal set by the medium-term financial plan, which laid down a limit of 90 trillion lire for the overall borrowing requirement. With respect to 1988 it should also be noted that, given the increase in debt outstanding and the essential stability of interest rates, interest payments are expected to go up from 75 to 83 trillion lire. This would mean that the financial requirement net of interest payments should be brought down from 34 to 26 trillion, or from 3.5 to 2.5 per cent of GDP.

The achievement of this objective will require incisive action on various components of both revenue and expenditure. The flanking measures in support of the Finance Bill, already announced by the Government, will have to provide for coherent means of implementation. These should be designed to deal not only with the quantitative aspects of budget adjustment but also with the need to improve the efficiency of the public sector.

Last May, in acknowledging the need for corrective action on the revenues side, I stressed the desirability of acting above all to cut down tax avoidance and evasion and the erosion of the tax base. The Government has now declared its intention to raise the rates of some indirect taxes in order to achieve a quick increase in revenues and to restore their proportion to direct taxes. The impact of a rise in indirect taxes, however, is an "automatic" rise in the price level. This is not a negligible cost, nor is it free of danger. To absorb this impact within a short period, the overall thrust of economic policy must be such as to affect expectations and the ultimate determinants of inflation, on both the demand side and the costs side, so as to tilt the fundamental trend of prices downwards. Only by re-establishing expectations of a slowdown in inflation can the contradiction between a stability-oriented monetary policy and the pressing needs of deficit financing and managing the public debt be resolved. The persistence of this conflict cannot but have repercussions on the level of interest rates.

2. The planning framework outlined last autumn for 1987 assumed sustained growth for the world economy and economic policies capable of prolonging the positive developments of 1986. Thanks to the favourable growth of world demand, Italy's balance of payments on current account was still expected to register a surplus of some 6 trillion lire. Real GDP was expected to grow at better than 3 per cent, while inflation was projected to slow further in terms of both the GDP deflator and consumer prices.

On the basis of this macroeconomic picture and the government's commitment to bring the overall borrowing requirement down to 100 trillion lire, the Bank of Italy outlined its financial programme. The main features were a 7 per cent expansion of credit to the non-state sector (with two percentage points of leeway on either side to allow for possible volatility connected with changes in the financial structure) and a growth in M2 of between 6 and 9 per cent. Given the forecast for the state borrowing requirement, total domestic credit was thus to increase by about 11 per cent and total financial assets by about 12 per cent.

The projected outturn for the current year, however, differs significantly from the estimates of the planning framework. Despite the measures adopted in August, the state sector borrowing requirement is now projected to remain at about last year's level, or 10 trillion lire above the original forecast. The expansion of productive activity is essentially in line with the initial estimate, but the balance of payments on current account will close in rough balance rather than in surplus as predicted. By the end of the year the effective twelve-month inflation rate is likely to be about one percentage point higher than the rate implicit in the annual average figure set as a target. These results are partly attributable to the performance of the world economy, which was less favourable than expected.

The control of monetary and financial variables has necessitated a series of interventions in the course of this year.

At the close of 1986 interbank interest rates had risen by one percentage point to over 12 per cent. In the wake of the EMS realignment of 12 January a massive inflow of capital, through both banking and non-banking channels, permitted a return to easier conditions in the money market. The Treasury financed its needs at interest rates newly in decline. In the first four months of the year the rate on three-month Treasury bills declined by about 60 basis points and that on twelve-month bills by 40 basis points to 9.6 per cent before tax. On 13 March the discount rate was lowered from 12.0 to 11.5 per cent.

Increasingly, however, the growth of credit to the non-state sector above the upper limit of the target range, from both banks and special credit institutions, was becoming a source of concern. In February the expansion of loans in foreign currency was particularly marked.

As an initial response, included as part of the 13 March package, a compulsory reserve requirement was introduced on increases in banks' net fund-raising in foreign currencies. The aim was to discourage the influx of short-term foreign capital through banking channels. This measure completed, in institutional terms, the authorities' armoury of controls on banks' liabilities.

Preoccupations about the course of economic activity deepened during the spring. The Bank of Italy indicated its concern on a number of public occasions: world demand was weaker than expected; domestic demand growth was outstripping GDP to a greater extent than had been predicted; the budget deficit was overshooting the target; earnings were growing sharply, fueled in both the private and the public sectors by contractual increases often above the "programmed ceiling"; the balance of payments on current account was deteriorating; the period of steadily slowing inflation was drawing to a close; and demand for government securities was weakening while deposits and especially loans in lire were accelerating.

The Bank of Italy used its financing of the banking system to raise short-term interest rates: equal to 9 per cent in April, the monthly average overnight rate fluctuated between 10.5 per cent and 11.5 per cent in the following three months (May-July). At the same time bank liquidity was kept below 4 trillion lire. On several occasions the Bank of Italy invited the banks to moderate the expansion of their lending, emphasizing that it was far in excess of the growth in income and investment and mostly to large firms for projects of a mainly financial nature.

Monetary policy was once again faced with a conflict between the needs of macroeconomic control and the funding requirements of the Government.

At the beginning of July the yields on government securities had to be raised to permit the growing borrowing requirement to be financed in the market: the twelve-month Treasury bill rate was increased by nearly one percentage point to 10.6 per cent before tax; the yield on Treasury bonds was increased by the same amount, while the first coupon on Treasury credit certificates was raised by about half a point. In August the average overnight rate rose to nearly 13 per cent.

The uncertain situation described above, in which technical and economic factors were augmented by the delicate political climate both before and after the general election, generated exchange rate pressure likely to induce a realignment of the lira within the EMS.

The exchange liberalization measures introduced in May, in pursuance of the policy of increasing the freedom of financial operations with abroad, implied outflows of capital to meet the backlog of demand for foreign securities. It was expected that the seasonally strong performance of the current account during the summer would offset these outflows, as actually happened. But these expected developments were accompanied by a substantial outflow of short-term capital as well.

Just before the mid-August holiday, there was an exceptional surge in these outflows, which the prompt market reaction of the Bank of Italy curbed. On the 27th of the same month, in conformity with the foregoing interpretation of the excessive level of domestic demand and of the budget deficit, a two-pronged package of measures was introduced on the fiscal front (additional revenues of 3.5 trillion lire) and on the monetary front (an increase in the discount rate to 12 per cent). With the aim of reducing uncertainty in the financial markets, the opportunity was also taken to make the 6.25 to 12.5 per cent increase in the withholding tax on income from government securities effective from September instead of October. At the same time the yields on such securities were raised to offset all the additional tax incurred by individuals.

The calm that settled over the exchange market after the mid-August turbulence proved to be no more than a lull: in September pressure began to build up again, and was particularly strong on the eve of the 11-12 September meeting of the Ministers of Finance and Central Bank Governors of the EEC. In some quarters the meeting was seen as providing a good opportunity for a realignment of the EMS central rates. After slackening in July, the pace of lending in lire accelerated again in August (Table 2). The demand for medium and long-term government securities remained weak and the borrowing requirement was increasingly financed by sales of short-term securities. The need for action that would have a strong impact on the market was evident: hence the measures adopted on 13 September.

Table 2

Monetary and credit aggregates

(percentage changes)

	1985	1986	1986 Jan-Aug (1)	1987 Jan-Aug (1)
Bank deposits	10.1	8.9	6.3	7.2
Bank loans	15.6	9.7	6.1	11.3
of which: in lire	*21.9*	*8.5*	*4.5*	*14.0*
Credit to the non-state sector	12.9	11.5	8.9	11.3
Total domestic credit	18.1	15.1	13.6	13.4

(1) Seasonally adjusted growth rates on an annual basis. The 1987 figures are provisional.

The exchange control measures, by acting upon firms' foreign currency accounts and the possibility of speeding up payments and deferring receipts in foreign exchange, reduce the scope for speculation against the lira. The ceiling on lira loans puts an obstacle in the way of credit flows that fuel the pressure on the exchange rate. At the same time it acts as an incentive for banks to raise funds abroad, for which the compulsory reserve coefficient has been reduced to zero. The temporary nature of both these measures clearly indicates that they are intended to serve as a link between the July and August measures described above and those that will be adopted in the Finance Law.

The situation on the foreign exchange market underwent a sharp technical reversal: between 13 September and the end of the same month, the exchange rate of the lira against the DM improved by 4 lire and the foreign currency reserves grew by over 5 billion dollars. This offset nearly all the outflows recorded in August and in the first ten days of September. The inflow of reserves has continued in the first part of October.

3. The credit ceiling was set so as to bring the expansion in lira bank loans down from the annual equivalent of 14 per cent in August to 8 per cent at the end of 1987, a rate that is consistent with the growth in nominal GDP. The slowdown should not be particularly difficult for the banks to achieve, nor should it impose a heavy burden on the productive system since, as early indications confirm, it is likely to come mainly from a cutback in large loans at very low rates. Given the expected growth in investment in machinery and equipment, there may be an acceleration at the close of the year in the expansion of the lending of the special credit institutions. These have been invited by the Bank of Italy not to replace banks in the granting of short-term credit. The expected pattern of lending by the banks and special credit institutions, together with the substantial volume of bond issues by the non-state sector, will probably result in the total credit to this sector increasing over the year at a rate within or just above the upper limit of the target range. The growth in M2 should fall within its target range.

The expansion in total domestic credit is forecast at around 13 per cent, or 150 trillion lire, compared with a target of 11 per cent. The preponderance of public sector financing is confirmed (70 per cent, as against 30 per cent for the credit to the private sector).

Despite the deterioration in the balance of payments and savers' shift towards investment in foreign securities, the increase in domestic financial assets will be sustained by the larger-than-expected expansion of credit and is likely to amount to 142 trillion lire, or around 13 per cent. Though one percentage point faster than originally projected, this rate of expansion is sharply down on the 17 per cent recorded in 1986. The proportion of the flow of financial assets accounted for by investment funds will be much smaller than in 1986. Purchases of investment fund units, as well as those of shares, have declined as a result of the weakening of share prices and the completion of the portfolio adjustment associated with the introduction and growth of the new types of intermediaries in securities.

The developments I have described were accompanied by an increase in monetary base through September of about 6.5 trillion lire, or an annual rate of 11 per cent. The major factor fueling this growth was Treasury financing, which created more than 13 trillion over the nine months in question (Table 3), while the foreign sector destroyed 3.5 trillion. In the remaining months of the year the growth in monetary base will have to be slowed down and its composition restored to a better balance through a curbing of the central bank's financing of the Treasury.

Even though the ceiling on bank lending is in operation, in the last quarter of this year and the first quarter of next year the Bank of Italy will exert strict control over the variables for which it has institutional responsibility. Control of liquidity is necessary to prevent the ceiling from being circumvented and its effectiveness undermined. The measures included in and flanking the Finance Bill will have to attenuate the pressure the state sector borrowing requirement exerts on the financial market and encourage savers to invest in medium and long-term securities.

Table 3

Financing of the state-sector borrowing requirement

	1982	1983	1984	1985	1986	1987 (1) Jan-Sept
			(billions of lire)			
Borrowing requirement	72,702	88,257	95,388	122,828	110,192	84,611
(net of settlements of past debts)	(70,692)	(88,257)	(95,388)	(110,237)	(109,586)	(84,521)
Financing						
Market securities (2)	51,651	74,830	75,431	72,196	87,463	67,131
of which: Treasury bills	*28,609*	*7,315*	*19,134*	*– 1,837*	*8,295*	*14,349*
medium and long-term securities	*23,042*	*67,515*	*56,297*	*74,033*	*79,168*	*52,782*
Securities issued to consolidate debts	712	—	—	10,403	—	—
PO deposits and foreign loans (3)	7,663	8,914	9,930	12,710	11,735	4,155
Monetary base	12,676	4,514	10,027	27,519	10,994	13,325
of which: BI overdraft and extraordinary advance (4)	*6,598*	*– 622*	*10,554*	*6,340*	*4,525*	*8,559*
			(percentage composition)			
Borrowing requirement	100.0	100.0	100.0	100.0	100.0	100.0
Financing						
Market securities (2)	71.0	84.8	79.1	58.8	79.4	79.3
of which: Treasury bills	*39.3*	*8.3*	*20.1*	*– 1.5*	*7.5*	*17.0*
medium and long-term securities	*31.7*	*76.5*	*59.0*	*60.3*	*71.9*	*62.3*
Securities issued to consolidate debts	1.0	—	—	8.5	—	—
PO deposits and foreign loans (3)	10.6	10.1	10.4	10.3	10.6	4.9
Monetary base	17.4	5.1	10.5	22.4	10.0	15.8
of which: BI overdraft and extraordinary advance (4)	*9.1*	*– 0.7*	*11.1*	*5.2*	*4.1*	*10.1*

(1) Provisional. — (2) Excluding Bank of Italy sales of securities to banks in connection with advances granted under Ministerial Decree 27.9.1974. — (3) Includes other minor items. — (4) The Bank of Italy granted an extraordinary advance of 8 trillion lire in 1983, which was repaid in 1984.

Table 4

The debt of the public sector (1)
(end-of-period figures)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987 (2) September
					(billions of current lire)						
Treasury bills ...	32,297	37,966	47,562	72,764	106,456	139,481	150,442	159,332	172,472	182,243	196,601
Medium & long-term Treasury paper	49,809	70,273	79,767	77,788	85,449	109,784	180,225	244,107	339,641	427,195	486,161
of which:											
bonds	*7,500*	*17,170*	*18,819*	*17,102*	*21,024*	*19,354*	*23,109*	*31,778*	*36,003*	*70,856*	*84,901*
certificates ...	*5,493*	*15,143*	*25,348*	*28,090*	*30,982*	*59,018*	*126,085*	*182,702*	*262,399*	*315,379*	*350,1871*
PO deposits	19,234	24,105	30,853	33,048	35,639	39,225	44,162	50,219	59,487	70,787	75,188
BI overdraft and extraordinary advance (3) ...	4,796	6,706	10,182	19,126	25,312	31,910	23,288	41,842	48,182	52,707	61,256
(Overdraft limit)	(7,782)	(11,195)	(15,358)	(20,595)	(25,331)	(29,620)	(36,757)	(43,124)	(51,142)	(57,761)	(61,931)
Foreign loans ...	1,616	1,941	2,392	3,433	6,578	9,731	12,505	16,285	18,204	17,377	18,355
Other debt	16,192	17,215	19,900	22,082	23,696	31,334	44,739	48,416	43,739	42,430	43,813
Total ...	**123,944**	**158,206**	**190,657**	**228,240**	**283,130**	**361,466**	**455,361**	**560,200**	**681,726**	**792,738**	**881,374**
					(percentage composition)						
Treasury bills ...	26.0	24.0	25.0	31.9	37.6	38.6	33.0	28.4	25.3	23.0	22.3
Medium & long-term Treasury paper	40.2	44.4	41.8	34.1	30.2	30.4	39.6	43.6	49.8	53.9	55.2
of which:											
bonds	*6.1*	*10.9*	*9.9*	*7.5*	*7.4*	*5.4*	*5.1*	*5.7*	*5.3*	*8.9*	*9.6*
certificates ...	*4.4*	*9.6*	*13.3*	*12.3*	*10.9*	*16.3*	*27.7*	*32.6*	*38.5*	*39.8*	*39.7*
PO deposits	15.5	15.2	16.2	14.5	12.6	10.8	9.7	9.0	8.7	8.9	8.5
BI overdraft and extraordinary advance (3) ...	3.9	4.3	5.3	8.4	8.9	8.8	5.1	7.5	7.1	6.6	6.9
Foreign loans ...	1.3	1.2	1.3	1.5	2.3	2.7	2.8	2.9	2.7	2.2	2.1
Other debt	13.1	10.9	10.4	9.6	8.4	8.7	9.8	8.6	6.4	5.4	5.0
Total ...	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
$\frac{\text{Public debt}}{\text{GDP}}$ % ...				58.5	60.5	66.3	72.1	77.7	84.6	88.6	(4) 93.4

(1) The debt of the public sector includes not only that of the state sector (the Treasury, the Deposits and Loans Fund, the Southern Italy Development Fund and the non-market autonomous government agencies) but also that of local authorities, social security institutions and other central government bodies. Rounding may cause discrepancies in the totals. — (2) Provisional and partly estimated data. — (3) The Bank of Italy granted an extraordinary advance of 8 trillion lire in 1983, which was repaid in 1984. Estimated ratio for all of 1987.

4. The major macroeconomic objectives of the strategy outlined in the Finance Bill appear to be: real GDP growth of a little less than 3 per cent; a small deficit on the external current account; and consumer price inflation of not more than 4.5 per cent on an annual basis. Achievement of these objectives, and especially the last, implies effective action in the three main policy areas: fiscal policy, incomes policy and monetary policy.

In accordance with the foregoing macroeconomic indications, the Bank of Italy has prepared a credit and monetary scenario that foresees an expansion of credit to the non-state sector of 8 per cent, which is slightly more than that projected for GDP but in line with the expected growth in investment. This target has a tolerance of plus and minus 2 percentage points to take account of the financial innovations that have modified the quantitative relationships between credit and economic activity in recent years.

In view of the commitment to keep the state sector borrowing requirement within 109.5 trillion lire, the expansion of total domestic credit is fixed at around 11 per cent. Total financial assets are expected to grow at the same rate, so that the stock would end up by exceeding national income by about one third. The growth in money (M2) will have to be much less than that of financial assets as a whole and close to that of nominal GDP; accordingly the target range has been fixed at 6-9 per cent.

It will be far from easy to achieve these monetary and credit targets. It is sufficient to consider that they will require savers' holdings of public debt to expand at nearly twice the rate of increase in national income. The financing of the Treasury in the market will be made more difficult by the events that have occurred during this year and interrupted the lengthening of the average maturity of the public debt (Table 4).

The securities maturing in 1988 amount to around 350 trillion lire, which is equivalent to one third of GDP. The renewal of maturing debt alone will require gross issues averaging 30 trillion lire a month, an amount that will be supplemented by the financing of the 1988 borrowing requirement. These are figures that set Italy apart from the other major industrial countries (Table 5), and their order of magnitude indicates the extent to which monetary policy is conditioned by the management of the public debt. A shortfall in market demand for government securities, albeit only a small one, would make it very hard to control bank reserves and achieve the objectives set for monetary policy.

The difficulty of maintaining the basic equilibria of the system, which derives primarily from the state of the public finances, has recently been highlighted once more by the strains in the

Table 5

Public debt and general government financial balances in the leading industrial countries

(as a percentage of GDP)

	1980	1981	1982	1983	1984	1985	1986 (1)	1987 (2)
				Public debt				
Italy	58.5	60.5	66.3	72.1	77.7	84.6	88.6	93.4
United States	37.7	37.1	41.1	44.0	45.1	48.5	50.5	51.6
Japan	52.0	57.0	61.1	66.9	68.4	69.4	69.1	69.5
Germany	32.5	36.3	39.5	40.9	41.7	42.3	42.4	43.2
France	25.0	25.9	28.3	29.8	32.6	34.6	36.4	38.3
United Kingdom	54.9	54.9	53.6	54.0	55.3	53.7	53.8	53.0
Canada	44.7	45.1	50.5	54.5	58.2	63.7	67.4	70.2
				Financial balances				
Italy	−8.5	−11.5	−11.3	−10.7	−11.5	−12.2	−11.2	−10.4
United States	−1.3	−1.0	−3.5	−3.8	−2.7	−3.4	−3.3	−2.7
Japan	−4.4	−3.8	−3.6	−3.7	−2.1	−0.8	−0.9	−0.9
Germany	−2.9	−3.7	−3.3	−2.4	−1.9	−1.1	−1.2	−1.5
France	0.2	−1.8	−2.7	−3.1	−2.9	−2.6	−2.9	−2.7
United Kingdom	−3.5	−2.8	−2.3	−3.6	−3.9	−2.7	−2.9	−2.7
Canada	−2.8	−1.5	−5.7	−6.6	−6.6	−6.6	−5.4	−4.9

Source: OECD (for Italy, Banca d'Italia and *Relazione Previsionale e Programmatica).*
(1) Partly estimated. — (2) Forecast.

foreign exchange market and the weakness of the financial market. Effective action by all the components of economic policy to control the public finances and inflation is the only sure way of overcoming today's problems and ensuring that they do not re-emerge.

Allow me to make one final observation. A few months ago the Government and Parliament decided, by formally approving the Single European Act, to proceed with exchange liberalization and the integration of Italy's real and financial economies with the European and world economies. Greater freedom of capital movements promotes growth, but it also imposes a double constraint: it requires even greater economic policy consistency and implies a more rigorous international assessment of the country's credibility.

Address by the Governor, Carlo A. Ciampi

30th National Congress of the Italian Forex Club

Rome, 24 October 1987

It is a great pleasure to participate in this year's annual congress of the Italian Forex Club and to join you in celebrating its thirtieth anniversary.

Since December 1956, when twenty-three foreign exchange operators met in Milan to found the Association, the Italian Forex Club has grown considerably. The increase in the membership to today's total of 630 is a summary indicator of this development. The progressive opening of the Italian economy has stimulated the banks' involvement in foreign exchange operations. The role of Italian foreign exchange operators on the international market has grown in importance. The presence of so many distinguished guests from Forex abroad also testifies to the standing of the Club in the International Association of Exchange Dealers.

Ever since the Italian Forex came into being, it has maintained a close relationship with the monetary and exchange authorities, and especially the Bank of Italy. The international financial tensions with which your anniversary has coincided confirm the need for this cooperation to be made even more effective with the aim of contributing to market stability.

Two developments have marked the cyclical course of the economy during 1987. The Bank of Italy drew attention to them on several occasions, first as potential risks and then as concrete facts: in March in the Research Department's Economic Bulletin; in May in the Report to the Bank's shareholders; and again in June at the annual meeting of the Italian Bankers' Association.

As regards real magnitudes, a slowing down in the growth of world demand was accompanied by a speeding up in that of domestic demand, fueled primarily by consumption. On the monetary and credit front, while total bank deposits and M2 expanded approximately as targeted, bank lending tended to overshoot and to grow markedly faster than both deposits and GDP.

Consumption was stimulated by the purchasing power deriving both from the improvement in Italy's terms of trade and from the wage agreements concluded in the public and private sectors. The loans the banks supplied to large and medium-sized firms were in response to a demand that the banks themselves judged to be highly interest rate elastic since it was often associated with financial projects in the broad sense of the term.

Though they were not closely related in a cyclical perspective, the growth in consumption and the expansion in bank lending, taken together, posed a threat to the equilibrium of the economy, especially in terms of the balance of payments.

In external relations, there were signs of a reversal of the relative price developments that had led to a surplus on the external current account in 1986. In particular, the prospect of a trade imbalance in volume terms began to loom.

Between the first quarter of 1986 and the first quarter of this year, the differential between the rate of growth in the volume of imports and that of exports was equal to 8 percentage points. In value terms, the trade balance improved by 1,700 billion lire owing to the preservation of a terms-of-trade gain amounting to 12 per cent. This advantage was nonetheless being eroded both by the upturn in oil prices and by the halt in the depreciation of the dollar. At the same time the gap between the development of imports and exports in real terms began to widen.

In the first half of the year imports grew by 7.6 per cent in volume compared with the corresponding period in 1986. The expansion was especially marked for both final capital goods and final consumer goods. By contrast, the volume of exports contracted by 3.7 per cent.

The deterioration in the trade balance was a result more of the difference in cyclical phasing between the Italian economy and the world economy than of any movement in the real exchange rate or, in other words, in overall competitiveness. The parameters that link trade to demand and relative prices are such that differences between economies' growth rates quickly lead to trade imbalances. In the first half of 1987 the growth rate differential in terms of domestic demand compared with our major partners widened and reached 2 percentage points vis-à-vis Germany, France and the United States. Demand pushed the rate of plant capacity utilization up to high levels that came close to equalling earlier records in some sectors.

The cyclical conditions in Italy and abroad influenced firms' pricing policies. Italian firms, which had defended their share of export markets in 1986 by curbing the increases in their lira prices, shifted their attention to the domestic market and maintained the high profit margins of the previous year. On the other hand, foreign business firms, attracted by the sustained growth of demand in Italy, sought to increase their share of our own market. With regard to manufactures, the average unit value of imports declined in the first half of 1987 by 3 per cent compared with the corresponding period last year, while domestic wholesale prices showed a rise of the same magnitude.

The changes in Italy's competitiveness abroad varied considerably as a result of the differences in nominal exchange rate developments. The real exchange rate of the lira rose vis-à-vis the dollar, but some recovery of competitiveness occurred vis-à-vis the major European currencies and in particular the Deutschemark. Compared with the same period of 1986, exports in the first half of 1987 declined in value terms by 4 per cent — reflecting decreases of 16 per cent to the United States and 30 per cent to the OPEC countries offset in part by a rise of 2.5 per cent to Community countries.

As regards capital movements, greater financial integration manifested itself in a mounting volume of transactions, of both an inward and outward nature. Favourable interest rate conditions and exchange rate expectations led to a net inflow in the first four months of 1987. The gross flows of investment capital and loans doubled and gave rise to a net inflow of 4.4 trillion lire. Short-term movements, involving trade debts and bank loans in foreign currencies, also accelerated. In view of their reversible nature, such inflows constituted a potential source of instability in the overall balance of payments. A first countermeasure, conceived as a flexible instrument of control, was the introduction in March of a reserve requirement on increases in the banks' net foreign currency resources.

The equilibrium of the balance of payments took on special significance given the imminence of the important new stages that were being reached in the process of exchange liberalization, both in the debate on the formulation of the delegated decrees implementing Law 599/1986 and by way of major decisions such as that taken in May to complete the abolition of the non-interest-bearing deposit in respect of investments abroad.

In anticipation of this delicate phase, and with a view both to preserving domestic economic equilibrium and overcoming the incipient difficulties in financing the Treasury following the halt in the downward trend of inflation and interest rates, a package of precautionary measures was put in place between May and July. Price competitiveness was improved in May by allowing the lira to lose ground in the EMS, a decline which followed upon that produced by the January realignment. Between December 1986 and May 1987 the average depreciation of the lira with respect to the other currencies adhering to the European exchange rate mechanism amounted to 4 per cent, with a corresponding 2.5 per cent improvement in competitiveness. Bank liquidity was held in check and short-term interest rates rose from 9 per cent in April to 11.5 per cent in July. The same month saw an increase of around one point in the yield at issue on government securities. The banks were invited to moderate their "hot money" operations, undertaken at rates that were hardly profitable. In July the growth in bank loans slowed down significantly.

The exchange liberalization measures introduced in May, which marked the gradual ending of a long spell of exchange protectionism, acted as a stimulus to portfolio investment. The total value of financial assets in Italy is of the order of 2,000 trillion lire, one of the highest values in relation to real wealth and GDP to be found in any industrial country. Judged by the same international standard, the share of government securities in Italy is extremely large and that of foreign securities small. From May on, net portfolio investment abroad by residents is estimated to have been around 700 billion lire a month, a 50 per cent increase on the corresponding figure for 1986. At the same time sales of Italian securities by non-residents outpaced their purchases.

As the second quarter advanced, it appeared increasingly probable that the state sector borrowing requirement would overshoot the target for the year. Additional thrust to private sector income and expenditures would have further widened the gap in the growth of domestic demand between Italy and the other major industrial countries.

This confirmed the need for budget measures to serve as the linchpin of a countercyclical policy aimed at curbing consumption while impinging as little as possible on productive investment and designed to bring the growth in domestic demand back into line with that of the leading industrial countries, thus forestalling the development of a fundamental imbalance in the external accounts. Fiscal policy action, with respect to which the precautionary monetary and exchange measures taken were complementary, also met the need to limit the overshoot of the public sector borrowing requirement.

The link between the policies needed to safeguard the current account equilibrium and to manage capital movements during the process of liberalization is, of course, exchange rate policy. Between May and July, in conditions of relative dollar stability, the DM/lira exchange rate fluctuated within a narrow range under the influence of both intervention purchases and sales, though primarily the latter.

Our ability to control the exchange rate was tested to the limit in the middle of August and again during the first ten days of September. For a whole month the pressure on the lira was intense. The outflows of short-term capital were larger than had ever occurred in any other exchange crisis, with very high peaks being recorded on several days.

As soon as the new Government received Parliament's vote of confidence, it combined full support for the measures designed to defend the lira with fiscal measures of a stopgap nature. The latter were designed to curb consumption in the last part of 1987, safeguard the equilibrium of the external current account and link up with the Finance Law for the management of the economy in 1988.

With the aim of removing one of the factors causing some operators to postpone their purchases of government securities, the increase in the withholding tax on the related interest income was brought forward by one month. Gross yields were raised at the same time to around 12 per cent. The penalizing nature of central bank credit was confirmed by raising the official discount rate by half a point to 12 per cent. The Bank of Italy took active steps to inform the banking system of the rationale and aims underlying both the economic policy measures adopted and the selective action designed to promote the desired slowdown in lending.

The measures introduced at the end of August, which have now started to produce their intended effects on demand and to contribute to external equilibrium, did not immediately influence expectations. Far from easing, the downward pressure on the lira intensified. Operators focused their attention on the meeting of EEC Ministers of Finance and central bank governors to be held at Nyborg on 12 September, which they saw as providing the opportunity for a realignment within the EMS. The banks reduced their net foreign liabilities and stepped up their lira lending again, to a faster rate than in July.

Some weakening of the lira in the EMS would only have partially fulfilled speculators' expectations and would not have been sufficient to alter them; a larger adjustment would have been inconsistent with our analysis of the economy, fueled inflation and given rise to a sense of laissez passer in economic policy. At the same time, while not actually putting the liberalization process at risk, such a devaluation could have distorted its sense. To have given the impression that freedom of capital movements can transform the exchange rate from an instrumental into an endogenous variable would have made it difficult to comprehend the ends such freedom is intended to achieve — to give savers a wider choice for their investments and improve the allocation of resources.

Having decided to maintain the existing exchange rate, we could have made recourse to a sharp increase in interest rates. Such a rise would not necessarily have been shortlived, and therefore involved potential repercussions on corporate investment and the interest burden weighing on the public finances. Besides, even a large increase in interest rates might have proved a broken reed in discouraging speculation that was expecting a sizable fall in the exchange rate in the very short term.

We opted for the alternative course of drawing on the official reserves in order to give operators and markets enough time to value correctly the domestic and external fundamentals as well as the delicate stage reached in the process of exchange liberalization. These considerations did not justify — on the contrary, they weighed against — accepting variations of the exchange rate of the lira, much less its realignment in the EMS.

As the weeks passed, operators and markets showed that they did not understand, or at any rate did not agree with, the messages or the behaviour of those responsible for the government of the economy. An essential characteristic of market operators is that they must anticipate events. But it is necessary to assess the potential gains and risks in the light of all the available information, including that on the probable actions and reactions of policymakers. Those who legitimately bought Deutschemarks at 725 lire in the expectation of reselling them shortly afterwards at a much higher price, but who in the end had to sell them at 721.50, did not violate any ethical or professional rule, they simply analyzed and assessed the situation incorrectly.

When the reserves in convertible currencies had fallen to a very low level, it was decided to intervene with administrative measures of considerable severity, but also of short duration in view of the immediacy of their effects. These measures were adopted by the Government on 13 September, the day after the Nyborg meeting.

The shortening of the time operators are allowed to hold foreign exchange on deposit and the restrictions imposed on the possibility and advantage of anticipating payments and delaying receipts in foreign currency reduced the scope for operating against the lira. The technical nature and short duration of these measures result in their being fully in accordance with the letter and the spirit of both Community legislation and the delegated decrees issued by the Government to implement Law 599.

The ceiling on the expansion of bank loans dried up one of the sources of speculative operations involving credit facilities in lire, withdrawals of deposits and the repayment of foreign currency debts. The ceiling is intended to bring the rate of growth in lira bank loans down from the 14 per cent reached in August to 8 per cent at the end of December. It was made to have a particularly strong impact in the first two months of its application with the aim of producing an immediate change in market behaviour. Consistently with the objective of reviving inflows from abroad, the compulsory reserve ratio on banks' net foreign borrowing was reduced to zero.

The measures lived up to expectations. The foreign currency reserves rose rapidly; as early as the second half of September, with an exchange rate against the DM that had firmed up by around 4 lire, the inflow had exceeded 5 billion dollars and almost completely offset the outflows of August and the first half of September. The inflow of foreign exchange has continued in October and totaled about 2 billion dollars at the close of the market yesterday. We have closed the ECU facility that the Bank of Italy requested the EMCF to mobilize as a precautionary measure on the eve of the Nyborg meeting. On this occasion we provided our EEC partners with a detailed picture of the state of the Italian economy.

At the end of September the growth in bank lending had fallen to within the limit imposed by the ceiling. As was expected, the decrease was concentrated among the major banks, which cut back their large loans granted at sub-prime rates, the principal cause of the earlier spurt in lending.

For 1987 as a whole, the increase in credit to the non-state sector should be within or just above the 5-9 per cent target range. Even so, the expansion in total domestic credit, which includes the financing of the public sector borrowing requirement, will be almost 2 percentage points above the planned level of 11 per cent. The growth in M2 should fall within the 6-9 per cent target range.

The combination of foreign exchange pressures and a weak financial market has been decoupled by the use of shock tactics to overcome the former. However, the demand for government securities remains sluggish and focused on the shorter maturities. Since July, the Treasury has funded more than half its needs with Treasury bills. This preference for shorter maturities has interrupted the process of lengthening the maturity of the public debt, which had been under way since 1983 and taken the average maturity to just under 4 years in June. A few days ago, the base rates on 6 and 12-month Treasury bills were raised a little above the yield on 3-month paper with the aim of curbing the decrease in the average maturity of Treasury bills.

Underlying these problems is the debilitation engendered by the imbalances in the public finances. These are clearly reflected in the increasing difficulty of managing a public debt that is almost as large as gross domestic product. I made a statement to Parliament on these issues a short time ago.

The economic policy measures adopted at the end of August and in September not only permitted the exchange pressures to be overcome but also mean that, despite the international environment being not so favourable as expected, the forecast outturn for the Italian economy in 1987 falls less short of the objectives.

GDP growth of 3 per cent, which is faster than the average for the industrial countries, together with a 5.5 per cent rise in investment in plant and equipment, will lead to the creation of 180,000 new jobs, but this will not be enough to offset the increase in the labour force and lower the unemployment rate. The average inflation rate for the year will result in a further narrowing of the differential with respect to other countries, but it will be more than half a point above the 4 per cent target. The fiscal measures introduced at the end of August have curbed the state sector borrowing requirement, but the target for the year will still be exceeded by 10 trillion lire.

The budget measures will make the development of domestic demand compatible with external current account balance, above all by damping the demand for durable consumer goods. The trade deficit for the year is expected to rise from 3.7 trillion lire in 1986 to 12-13 trillion. Assuming an oil price of 19 dollars per barrel for the rest of the year, the energy deficit is likely to amount to 19 trillion lire, just a little less than last year's. Among the other items making up the current account, the largest surplus will again be recorded by tourism, though the rapid growth in Italian tourist spending abroad will offset most of the effect of the revival of foreign tourism in Italy. The deficit in respect of investment income will remain virtually unchanged despite the reduction in Italy's net foreign liabilities.

Now, after this summary account of events in the Italian economy this year from the standpoint of most immediate interest to those gathered here today, namely that of our foreign trade and payments, I should like to recall some new features of the domestic and international institutional framework, and to follow this with some reflections on the events that have shaken financial markets around the globe this past week.

The protracted reform of Italy's foreign exchange controls begun in 1983 is now nearing completion. The delegated decrees approved by the government establish free external transactions as the guiding principle of our exchange regulations. They endorse the purposes of the process of liberalization that will lead to the creation of a unified European market. They adopt the view that the removal of restrictions does not mean abandonment of the ability to control foreign exchange flows, both inward and outward, in accordance with temporary economic and monetary policy exigencies.

The new regulations prescribe the scope for administrative intervention, requiring that the authorities act only in response to strong pressures, either upward or downward, on the lira. This approach resembles that taken in the exchange legislation of such countries as Germany, where the law provides for possible recourse to administrative measures, such as a compulsory non-interest-bearing deposit on capital inflows, to safeguard the effectiveness of a restrictive monetary stance.

Beginning in the summer, as the liberalization process entered its most delicate stage, the Treasury and the Bank of Italy agreed upon a line of action aimed at maintaining orderly conditions during the period of adjustment of Italian investors' portfolios.

As part of this approach, in September the Italian Government floated a billion-dollar bond issue, and in October Treasury bills denominated in ECUs were offered for sale. The motivation underlying Italy's expanded recourse to international markets derives not from the need to finance a domestic demand for goods and services structurally in excess of output but rather from that of keeping pace with the fuller integration of Italy in the European and world economies.

What we expect from exchange liberalization is increased interest in our financial market on the part of foreign investors. Lira-denominated assets are under-represented in their portfolios, even in comparison with assets denominated in the currencies of countries whose GDP and foreign trade are far smaller than Italy's. This is the consequence not only of the image projected by Italy's past foreign exchange restrictions but also of the persistence of imperfections in our share and bond markets. These must be eliminated.

Last September's agreement among the central bank governors of the EEC modifying the exchange rate mechanism of March 1979 represents another positive element in the monetary edifice of the Community. The very short-term financing facility can now be used for intramarginal interventions. The initial maturity and maximum renewal periods of such facilities have been improved. In addition, the scope for the utilization of ECUs in settling obligations arising out of interventions has been broadened.

The significance of the agreement goes beyond the technical aspects, important though these are, in that it reaffirms the necessity for closer coordination of economic policies and for concerted management of the exchange rate mechanism and the machinery for financing EMS interventions.

The work on the new Community Directive on the liberalization of monetary movements points in the same direction. Agreement in principle with its purposes must not prevent due care and caution with regard to the timing, the context, and the means of implementing this further step. For in this case the potential for destabilizing flows is a good deal larger even than that of the liberalization of financial transactions.

Thus in Italy and throughout the Community the situation that is taking shape induces us to confirm the exchange rate stance that Italy has held since it joined the EMS. Namely, we adhere to a non-accommodating policy which sees the exchange rate as a disciplinary tool for the restoration of health to our productive economy and our monetary system, and which, thanks to today's narrower inflation differentials, can now be made even stricter.

It has been argued that going over to a fully liberalized foreign exchange regime would call for more flexible management of the EMS exchange rate mechanism. Actually, greater flexibility does not signify larger realignments; and for Italy, it does not imply fuller utilization of the band. Greater flexibility means that the central banks, in coping with capital movements, are prepared to accept sizable daily fluctuations in exchange rates within a framework of greater fundamental stability. In practice, Italy has made only limited use of the lira's wider band, in order to avoid weakening the significance and the operational importance of the EMS.

Free trade in goods, full transferability of capital involving monetary movements as well, and narrower exchange rate variations can coexist only if economic policies are coordinated.

The progress achieved in the first phase of the Community negotiations concluded at Nyborg has set the stage for a positive approach to the second phase. We have created a climate in which the traditional conflicts between surplus and deficit countries are attenuated.

In such a climate, we may reasonably expect further progress, such as the creation of a Community recycling mechanism to combat tensions that stem from the liberalization of monetary movements but which are not justified by changes in economic fundamentals. The mechanism, preferably centring on the EMCF, should make it possible to draw funds from the markets to which capital is flowing and reallocate them to countries suffering outflows. The direct recourse to the market, rather than to the support of the central banks, would prevent any added creation of money. It would help the central bank of the country faced with inflows to cushion the impact on domestic monetary conditions, and it would be an instrument for performing open market operations as part of a jointly managed European monetary policy in the common interest. Neutralizing the impact of destabilizing capital movements would avert the risk to the inflow countries of a loss of domestic monetary control and of damage from competitive devaluations by their Community partners.

In addition to cooperation within the EMS, the orderly management of the exchange rate under a liberalized exchange control regime requires more far-sighted behaviour on the part of exchange market participants themselves. A few weeks ago in Washington, Chancellor of the Exchequer Lawson offered the IMF meeting the following comment on recent experience: "Of course, all financial markets have a certain amount of speculative froth. But to function well they need some players to take a longer view, and so provide a stabilizing influence. In foreign exchange markets, they have been conspicuous by their absence".

The liberalization of foreign exchange controls implies that a portion of official reserves is transferred to private operators, who become their de facto co-managers. Obviously, this does not mean that they must shoulder the responsibility of acting in the public interest. But it does mean that in handling these funds as profitably as possible from a business point of view, they must not ignore the effects of their actions on the formulation and implementation of economic policy.

Looking beyond our European frontiers, the recent meetings in Washington reviewed the state of implementation of the economic policy inaugurated by the Group of Seven with the Louvre Accord. This strategy was adopted in full awareness of the difficulties that must be overcome. The size of international payments imbalances, the political and institutional rigidities existing in the leading industrial countries, and the acute sensitivity of markets are all factors that enormously complicate the task of reconciling the process of re-equilibration with the imperative need to maintain non-inflationary growth in the world economy.

The immediate need is to restore calm in the foreign exchange markets, in order to give national economies time to respond, with appropriate adjustments, to the depreciation of the dollar.

During the first part of 1987 exchange rate stabilization depended primarily upon concerted market interventions by the central banks. As time went on, some of the burden was also borne by US interest rates, which began to move upwards.

Yet we cannot rely solely on monetary policy and exchange rate measures to accomplish the correction of current payments imbalances among the industrial economies. The main contribution must come from the coordination of policies of demand management, in particular those of fiscal policy.

This guideline, repeatedly acknowledged in the meetings of the Group of Seven since the Tokyo Summit, was reaffirmed most recently in Washington, where the United States renewed its commitment to proceed towards the restoration of sound federal finances.

However, the slowness of America's external accounts in returning to balance, and the sluggishness of Germany and Japan in taking expansionary measures, have undermined the credibility of these reiterated declarations. Already last May I pointed to the urgent need for these statements of intention to be given concrete form by consequential economic policy actions, reflecting concerted decisions on both sides of the Atlantic and the Pacific. But, on the contrary, the actual behaviour of the various economies gives the impression that national approaches still prevail in the conduct of policy in the leading countries — approaches that underestimate their impact on the capital markets which are called upon to finance deficits of such massive proportions.

In a climate of uncertainty that transcends the economic sphere, the tightening of domestic monetary conditions in Germany on top of the perceived sluggishness of present and expected growth in that country was enough, this October, to accentuate market doubts as to the capacity for concerted management of the world economic system. The rise in German interest rates, although of a limited nature, came in the wake of increases in the United States and then in Japan. If policy priority were accorded to exchange rate stability, the prospect would be for an upward ratcheting of interest rates; if it were not, as was hinted officially as well, for a sharp depreciation of the dollar. Fears of recession were unleashed, and a crisis of confidence swept the international financial markets.

The stock market crashes, however, had been preceded by a prolonged rise in share prices, not just in New York but also in Tokyo, that was only partly justified by economic fundamentals. As in the case of exchange rates, speculative bubbles and "overshooting" threaten to become an inseparable part of the workings of the financial markets, where expectations play a crucial role in price formation and extrapolations and projections can carry well beyond equilibrium values.

Such wide fluctuations in all the world's stock markets are an alarm bell, and would remain so even if the losses were made good. The trauma produced by the volatility of share prices heightens the climate of uncertainty and accentuates reactions to international economic imbalances.

In circumstances like these, when our familiar points of reference appear to waver, we need to recall the primacy of the real economy. An analysis of its state furnishes more trustworthy elements for judgment, and in practical terms it is more reassuring. In the industrial economies, the manufacturing sector has proceeded towards the restoration of health. In many countries the adjustment of the public finances has been completed, in others begun. Inflation is low and there is no reason to fear its rekindling in the near future.

The nature of the disequilibria afflicting the world economy has long been known and identified. Diagnosis has succeeded in devising the appropriate treatment. Without unduly rigid exchange rates, economic policies must influence the relative course of demand in the various countries while preserving non-inflationary monetary conditions but avoiding recessionary impulses.

It is up to policymakers to make sure that this process takes place. Mutual confidence and cooperation are needed, and the spillover effects of national policies must be taken into account.

The globalization of markets and increasing international economic integration are the foundations of the growth we have enjoyed in the past few decades. Inevitably, these factors have restricted the economic independence of individual nations. And this ought to be taken into account in devising and implementing economic policies. Otherwise we run the risk of dismantling laboriously constructed arrangements, of a revival of real and financial protectionism.

One wonders about the possible repercussions on the Italian economy of this period of extreme volatility in the leading capital markets.

The answer, like my earlier depiction of the international economy, must lie in an analysis of the state of the Italian economy. My remarks here today have sought to supply some relevant factors. The analysis highlights appreciable elements of strength but also signals weak points.

Italy can now count on a modernized industrial fabric, satisfactory profitability, and one of the lowest corporate debt ratios in the industrial world; a rate of private savings, by households and by companies, that is one of the highest to be found; a large, skilled labour force and a deep pool of entrepreneurial capacity; and a credit system that has been made more diversified, more competitive, more soundly capitalized and better organized, while maintaining the separation between finance and industry on which stability and allocative efficiency are based. These are the strong defences that tenacious action has reinforced in the course of the eighties.

Combined with the precautions and the countercyclical, foreign exchange, credit and fiscal measures of recent months, these defences managed to hold in check the tidal wave of selling pressure unleashed by the stock markets in the United States, the world's leading debtor, and Japan, the leading creditor.

Nonetheless, within the Italian economy there is still a latent threat and a persistent structural weakness. Owing to a concatenation of domestic and external factors, the economy now faces, for the first time since 1982, the danger of resurgent inflation. This requires that incomes, fiscal, and monetary policy work together to limit and quickly reverse the price acceleration and thus allow the adjustment effort of recent years to be brought to its conclusion. Above all, it requires still more resolute action to deal with the real and financial disequilibrium in government finances.

The great unsolved problem of the Italian economy today is the state of the public finances, which now affects our entire economic and social system. To proclaim the importance of this problem, as is occurring ever more widely, is not to be alarmist; it is right and proper to do so, provided that the denunciations are accompanied by the will to get things done. And acting to solve the problem is everyone's job, because the persistence of the public deficit is the result first and foremost of the dominance of private interests.

Restoring order to the public sector finances must and can be accomplished by a country that has succeeded in subduing inflation that was above 20 per cent in 1980 and in bringing back to health a corporate sector that had been making losses for years. There is no quick and easy solution. What is needed is clarity about the terms of the problem and a consciousness of the need to tackle it with unremitting action.

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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)*			
1981	1.9	3.7	—	0.2	−1.0	1.1	3.7
1982	−2.5	3.1	−1.0	2.0	0.9	0.2	−3.2
1983	3.6	3.2	1.8	0.7	3.7	0.5	3.2
1984	6.8	5.1	3.0	1.6	2.1	3.5	6.3
1985	3.0	4.7	2.5	1.4	3.6	2.7	4.3
1986	2.9	2.4	2.5	2.2	3.0	2.7	3.3
1986 — 1st qtr.	1.3	−0.4	−0.8	0.1	2.1	−0.3	0.6
2nd "	0.2	0.9	2.6	1.2	−0.2	2.0	1.0
3rd "	0.4	0.7	0.7	0.4	0.3	0.5	0.1
4th "	0.4	0.7	−0.1	0.4	1.4	0.2	—
1987 — 1st qtr.	1.1	1.3	−0.8	—	1.1	0.1	1.5
2nd "	0.6	—	1.5	0.7	0.5	1.4	1.5
				GNP deflator (1) *(% changes on previous period;seasonally adjusted data)*			
1981	9.6	3.2	4.0	12.0	11.5	18.5	10.8
1982	6.5	1.8	4.4	12.0	7.7	16.3	8.7
1983	3.9	0.8	3.2	9.4	5.1	15.2	5.1
1984	3.7	1.2	2.0	7.0	4.0	10.2	3.3
1985	3.2	1.6	2.2	6.1	6.0	8.8	3.2
1986	2.6	1.7	3.1	4.7	3.5	8.0	2.9
1986 — 1st qtr.	0.4	0.4	1.1	1.0	−0.6	2.1	0.5
2nd "	0.7	0.9	0.3	1.6	0.6	2.3	0.5
3rd "	1.0	0.3	0.8	0.8	1.2	2.0	1.1
4th "	0.1	−0.3	0.8	0.2	1.0	1.6	1.1
1987 — 1st qtr.	1.0	−0.5	0.8	1.1	0.3	0.8	1.5
2nd "	1.0	....	....	....	....	....	0.8
				Current account balance (2) *(Billions of dollars)*			
1981	6.9	4.8	−5.2	−4.6	12.8	−8.2	−5.1
1982	−8.7	6.9	4.1	−12.1	7.1	−5.5	2.3
1983	−46.2	20.8	4.2	−4.7	5.1	0.8	2.5
1984	−107.0	35.0	8.4	−0.8	2.0	−2.9	2.7
1985	−116.4	49.3	15.2	−0.2	3.8	−4.1	−0.9
1986	−141.4	85.8	37.2	3.4	−1.4	4.1	−6.7
1986 — 1st qtr.	−33.0	12.7	7.0	−0.4	3.8	−0.9	−3.3
2nd "	−33.8	23.1	8.1	1.1	−1.9	0.8	−1.8
3rd "	−36.6	24.3	8.5	0.8	−6.6	3.4	−0.6
4th "	−32.0	25.7	13.6	1.9	3.3	1.5	−1.0
1987 — 1st qtr.	−36.8	20.6	11.0	−1.4	0.3	0.3	−1.8
2nd "	−41.1	22.6	10.7	....	−0.9	−0.9	−2.0

Sources: National bulletins, OECD and IMF.

(1) GNP for the US, Japan, Germany and Canada; "marchand" GDP for the UK and Italy. — (2) Seasonally adjusted data for the US and Italy. Owing to the quarterly figures for Italy, their sum may not coincide with the annual totals.

Table a2

Industrial production

(% changes on previous period: seasonally adjusted data)

	US	Japan	Germany	France	UK	Italy	Canada
1981	2.2	1.0	−1.5	−1.0	−3.4	−1.6	0.9
1982	−7.1	0.4	−2.9	−1.0	1.9	−3.1	−8.7
1983	6.0	3.6	0.7	—	3.6	−3.2	5.2
1984	11.4	11.0	3.4	1.0	1.3	3.4	14.1
1985	1.7	4.5	5.4	—	4.7	1.2	5.2
1986	1.0	−0.3	2.0	1.0	1.8	2.7	1.3
1985 — 2nd qtr.	0.3	2.2	1.0	1.0	2.8	0.6	1.0
3rd "	0.4	—	1.9	2.0	−1.1	−0.5	1.5
4th "	0.5	−0.8	—	−1.0	0.2	0.6	1.2
1986 — 1st qtr.	0.3	0.2	—	−1.0	0.6	2.1	−0.4
2nd "	−0.5	−0.3	0.9	1.0	0.6	−0.2	—
3rd "	0.5	−0.2	0.9	1.0	1.0	−0.4	−0.7
4th "	0.8	−0.1	−0.9	−1.0	—	2.6	0.6
1987 — 1st qtr.	0.8	1.3	−1.9	−1.0	0.8	0.6	1.8
2nd "	0.9	—	2.9	....	0.5	2.3	1.3
1986 — July	0.5	−0.2	0.9	1.0	2.6	−0.6	0.9
Aug.	0.2	−1.6	−0.9	—	0.6	−3.1	−0.8
Sept.	−0.2	2.8	−0.9	—	−0.4	2.8	0.4
Oct.	0.3	−1.4	0.9	—	0.1	1.3	—
Nov.	0.5	−1.3	−0.9	−1.9	0.1	—	—
Dec.	0.6	2.9	−1.9	—	−0.7	1.5	1.8
1987 — Jan.	−0.2	−0.3	−1.0	−2.0	0.4	−1.2	−0.3
Feb.	0.5	−0.7	1.9	3.0	1.6	0.8	1.1
Mar.	0.1	1.7	−0.9	1.0	0.1	0.9	0.6
Apr.	0.1	−1.4	2.9	−1.0	−0.4	1.1	−0.2
May	0.7	−1.1	—	1.0	0.9	2.2	0.4
June	0.4	3.9	−0.9	1.9	−1.3	−3.4	1.3
July	0.8	0.6	−1.9	....	2.2	1.2	....

Sources: National bulletins and OECD.

Table a3

Consumer prices

(% changes on corresponding period)

	US	Japan	Germany	France	UK	Italy	Canada
1981	10.4	4.9	6.3	13.4	12.0	17.8	12.5
1982	6.1	2.7	5.3	11.8	8.5	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	4.7	10.8	4.3
1985	3.5	2.1	2.2	5.8	6.4	9.2	4.0
1986	2.0	0.4	−0.2	2.7	3.3	5.9	4.1
1985 — 2nd qtr.	3.7	2.1	2.5	6.4	7.3	9.4	3.9
3rd "	3.3	2.4	2.2	5.6	6.6	9.1	3.9
4th "	3.5	1.5	1.8	4.8	5.6	8.9	4.2
1986 — 1st qtr.	3.1	1.4	0.7	3.6	4.9	7.5	4.2
2nd "	1.6	0.7	−0.2	2.4	2.6	6.1	3.9
3rd "	1.7	—	−0.4	2.1	2.4	5.5	4.2
4th "	1.3	−0.4	−1.1	2.1	3.3	4.5	4.3
1987 — 1st qtr.	2.2	−1.2	−0.5	3.2	3.9	4.3	4.0
2nd "	3.8	−0.2	0.1	3.4	4.2	4.5	4.6
1986 — July	1.6	−0.1	−0.5	2.0	2.2	5.5	4.2
Aug.	1.5	−0.2	−0.4	2.0	2.2	5.6	4.3
Sept.	1.7	0.3	−0.4	2.3	2.9	5.3	4.1
Oct.	1.5	−0.6	−0.9	2.2	2.9	4.7	4.4
Nov.	1.3	−0.2	−1.2	2.1	3.6	4.4	4.5
Dec.	1.1	−0.4	−1.1	2.1	3.6	4.2	4.1
1987 — Jan.	1.4	−1.5	−0.8	3.0	3.9	4.2	4.0
Feb.	2.1	−1.4	−0.5	3.4	3.7	4.4	3.9
Mar.	3.0	−0.8	−0.2	3.3	4.1	4.2	4.2
Apr.	3.8	−0.2	0.1	3.5	4.1	4.4	4.5
May	3.8	−0.3	0.2	3.4	4.1	4.4	4.7
June	3.7	—	0.2	3.3	4.3	4.5	4.7
July	3.9	0.1	0.7	3.4	4.4	4.7	4.6
Aug.	4.3	0.4	0.8	3.5	4.4	4.8	4.5

Sources: National bulletins and OECD.

Table a4

Wholesale prices

(% changes on corresponding period)

	US	Japan	Germany (1)	France (1)	UK (1)	Italy	Canada (1)
1981	9.0	1.0	6.0	12.0	9.5	16.6	10.2
1982	1.8	2.0	4.8	10.7	7.8	13.9	6.7
1983	1.8	−1.9	1.5	8.9	5.5	9.7	3.5
1984	2.7	—	2.8	8.9	6.1	10.4	4.5
1985	−0.9	−1.0	2.0	4.8	5.5	7.3	2.7
1986	−2.6	−10.0	−2.9	−3.2	4.5	−0.9	0.9
1985 — 2nd qtr.	−0.9	—	2.6	5.4	5.6	8.3	2.8
3rd "	−1.7	−2.0	2.0	4.0	5.6	6.9	2.0
4th "	—	−4.0	0.9	2.0	5.1	5.9	2.6
1986 — 1st qtr.	−1.7	−5.9	−1.3	−0.7	5.0	2.5	2.3
2nd "	−3.5	−9.0	−3.0	−3.2	4.5	−1.4	0.2
3rd "	−2.6	−11.1	−3.7	−3.9	4.4	−2.2	0.5
4th "	−3.5	−10.3	−3.7	−3.3	4.2	−2.4	0.4
1987 — 1st qtr.	−0.9	−8.4	−2.4	−2.0	4.1	−0.3	−0.2
2nd "	2.7	−5.5	−0.9	....	3.5	2.4	2.6
1986 — July	−3.5	−11.0	−3.8	....	4.4	−2.2	0.2
Aug.	−2.6	−11.1	−3.6	....	4.4	−2.1	0.6
Sept.	−2.6	−12.1	−3.8	....	4.4	−2.3	0.7
Oct.	−3.5	−11.2	−3.8	....	4.3	−2.4	0.8
Nov.	−3.5	−10.3	−3.9	....	4.2	−2.3	0.5
Dec.	−3.5	−10.3	−3.6	....	4.2	−2.5	−0.2
1987 — Jan.	−2.6	−9.4	−2.7	....	4.3	−1.7	−0.5
Feb.	—	−9.5	−2.6	....	4.2	−0.2	−0.5
Mar.	0.9	−6.5	−2.1	....	3.7	0.6	0.2
Apr.	2.7	−6.5	−1.4	....	3.5	1.6	1.5
May	2.7	−5.5	−0.7	....	3.5	2.7	3.0
June	3.6	−4.4	−0.5	....	3.6	2.9	3.2
July	3.6	−2.2	0.4	....	3.6	3.8	3.4
Aug.	3.2	−1.1	....	....	3.6	4.1	....

Source: National bulletins and OECD.

(1) Total producer prices for Germany; producer prices of intermediate goods for France; producer prices of manufactures for the UK and Canada.

Table a5

Short-term interest rates

	US	Japan	Germany	France	UK	Italy	Canada
			Official reference rates (1) *(end-of-period data)*				
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	10.3
1983 — Dec.	8.5	5.0	4.0	9.5	9.0	17.0	10.0
1984 — Dec.	8.0	5.0	4.5	9.5	9.6	16.5	10.2
1985 — Dec.	7.5	5.0	4.0	9.5	11.5	15.0	9.5
1986 — Aug.	5.5	3.5	3.5	9.5	10.0	12.0	8.6
Sept.	5.5	3.5	3.5	9.5	10.0	12.0	8.6
Oct.	5.5	3.0	3.5	9.5	11.0	12.0	8.6
Nov.	5.5	3.0	3.5	9.5	11.0	12.0	8.5
Dec.	5.5	3.0	3.5	9.5	11.0	12.0	8.5
1987 — Jan.	5.5	3.0	3.0	9.5	11.0	12.0	7.7
Feb.	5.5	2.5	3.0	9.5	11.0	12.0	7.6
Mar.	5.5	2.5	3.0	9.5	10.0	11.5	7.1
Apr.	5.5	2.5	3.0	9.5	9.5	11.5	8.3
May	5.5	2.5	3.0	9.5	9.0	11.5	8.5
June	5.5	2.5	3.0	9.5	9.0	11.5	8.6
July	5.5	2.5	3.0	9.5	9.0	11.5	8.8
Aug.	5.5	2.5	3.0	9.5	10.0	12.0	9.2
			Money market rates (2) *(monthly averages)*				
1981 — Dec.	10.8	6.8	10.8	15.3	15.4	21.4	14.4
1982 — Dec.	7.9	7.1	6.6	12.7	10.6	19.1	9.8
1983 — Dec.	9.0	6.3	6.5	12.2	9.4	17.0	9.7
1984 — Dec.	8.1	6.3	5.8	10.7	9.8	14.7	9.8
1985 — Dec.	7.1	8.0	4.8	9.0	11.8	13.1	9.2
1986 — Aug.	5.5	4.7	4.6	7.1	9.8	10.4	8.3
Sept.	5.2	4.8	4.5	7.1	10.1	10.6	8.4
Oct.	5.2	4.8	4.6	7.4	11.0	10.4	8.3
Nov.	5.3	4.3	4.7	7.5	11.2	10.3	8.2
Dec.	5.5	4.4	4.8	8.1	11.4	10.3	8.2
1987 — Jan.	5.4	4.3	4.5	8.6	11.0	10.2	7.2
Feb.	5.6	4.2	4.0	8.5	10.9	10.0	7.3
Mar.	5.6	3.9	4.0	8.0	10.0	9.9	6.8
Apr.	5.6	3.9	3.9	8.0	9.8	9.9	8.1
May	5.7	3.7	3.8	8.2	8.8	9.9	8.2
June	5.7	3.6	3.7	8.3	8.9	9.9	8.3
July	5.7	3.6	3.8	8.0	9.2	10.8	9.0
Aug.	6.0	3.7	3.9	8.0	10.0	10.9	9.0

Sources: National bulletins, IMF, BIS and OECD.

(1) UK: base rate; all other countries: discount rate. — (2) For the US, the 3-month Treasury bill rate; for Japan, the rate on 2-month private sector securities; for Germany, France and the UK, the 3-month interbank rate; for Italy, the auction rate on 6-month Treasury bills; for 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)			
1981 — Dec.	13.7	7.9	9.7	16.0	15.6	21.3	15.3
1982 — Dec.	9.9	7.5	7.9	14.8	11.3	19.6	11.7
1983 — Dec.	11.1	6.9	8.2	13.3	10.3	17.7	12.0
1984 — Dec.	10.6	6.3	7.0	11.8	10.5	14.5	11.7
1985 — Dec.	8.4	5.8	6.5	10.5	10.4	13.7	10.1
1986 — Aug.	6.5	4.7	5.7	7.7	9.4	10.8	9.2
Sept.	6.6	5.0	5.8	7.8	10.0	10.4	9.4
Oct.	6.6	4.8	6.0	8.2	10.6	10.3	9.5
Nov.	6.5	4.7	6.1	8.6	10.8	10.3	9.3
Dec.	6.4	4.6	5.9	8.7	10.7	10.1	9.2
1987 — Jan.	6.4	4.2	5.8	8.7	10.1	9.8	8.9
Feb.	6.6	4.0	5.7	8.9	9.8	9.8	9.1
Mar.	6.6	3.7	5.6	8.5	9.2	10.0	9.0
Apr.	7.3	3.4	5.5	8.6	9.1	10.1	9.8
May	8.0	3.4	5.4	8.9	8.8	10.2	9.9
June	7.8	3.9	5.6	9.3	8.9	10.4	9.8
July	7.7	4.4	5.8	9.3	9.2	10.9	10.2
Aug.	8.0	4.5	6.0	9.9	10.1	11.3	10.4
				Share price indices (1975 = 100) (2)			
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 — Dec.	193.2	277.2	173.4	247.6	436.4	187.8	240.0
1985 — Dec.	243.8	322.5	283.9	347.2	507.5	441.1	290.0
1986 — Aug.	285.6	476.1	303.5	530.8	588.7	896.9	302.8
Sept.	279.2	481.5	311.9	534.3	599.5	884.1	297.9
Oct.	278.4	456.0	306.3	520.8	588.1	887.9	303.9
Nov.	287.9	458.8	309.4	524.2	610.4	870.6	304.7
Dec.	291.4	498.4	314.0	555.5	615.8	820.4	306.6
1987 — Jan.	308.5	521.8	295.2	562.0	655.1	839.4	334.9
Feb.	330.3	558.5	265.9	572.8	714.2	801.6	349.9
Mar.	343.2	593.3	263.2	608.8	752.0	799.9	374.0
Apr.	339.3	655.8	275.3	617.8	743.7	849.8	371.7
May	339.4	687.5	270.0	600.6	811.4	828.0	368.5
June	353.3	701.1	276.1	561.6	849.1	808.9	374.0
July	363.3	641.6	293.1	565.7	904.1	788.6	403.0
Aug.	386.6	676.3	304.2	567.3	862.4	732.9	....

Sources: National bulletins, IMF, BIS and OECD.
(1) Rates on government bonds. — (2) Italy: 1958 = 100.

Interest rates on international markets and US dollar premium/discount

(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**			
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 — Dec.	7.88	6.56	4.75	11.81	7.94	6.38	4.81	11.69
1986 — Aug.	5.56	4.75	4.31	9.81	5.69	4.63	4.31	9.56
Sept.	6.00	4.88	4.50	10.19	6.19	4.88	4.63	10.81
Oct.	5.81	4.56	4.50	11.13	5.88	4.56	4.63	11.06
Nov.	6.00	4.50	4.62	11.37	6.00	4.50	4.69	11.37
Dec.	6.25	4.50	4.87	11.12	6.12	4.31	4.81	11.06
1987 — Jan.	6.12	4.25	4.12	11.00	6.12	4.06	4.19	10.75
Feb.	6.31	4.25	4.00	10.69	6.37	4.06	4.12	10.31
Mar.	6.50	4.00	3.87	9.81	6.69	4.00	4.00	9.62
Apr.	7.00	3.94	3.81	9.25	7.62	3.94	4.00	9.12
May	7.25	3.87	3.75	8.81	7.94	3.94	3.87	9.06
June	7.06	4.00	3.81	9.19	7.62	4.06	3.87	9.31
July	7.00	4.06	3.94	9.44	7.69	4.25	4.00	10.06
Aug.	7.13	4.00	4.00	10.44	7.88	4.28	4.38	10.94
	3-month US dollar premium (−)/discount (+)				**12-month US dollar premium (−)/discount (+)**			
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 — Dec.		1.32	3.13	−3.93		1.56	3.13	−3.75
1986 — Aug.		0.81	1.25	−4.25		1.06	1.38	−3.87
Sept.		1.12	1.50	−4.19		1.31	1.56	−4.62
Oct.		1.25	1.31	−5.32		1.32	1.25	−5.18
Nov.		1.50	1.38	−5.37		1.50	1.31	−5.37
Dec.		1.75	1.38	−4.87		1.81	1.31	−4.94
1987 — Jan.		1.87	2.00	−4.88		2.06	1.93	−4.63
Feb.		2.06	2.31	−4.38		2.31	2.25	−3.94
Mar.		2.50	2.63	−3.31		2.69	2.69	−2.93
Apr.		3.06	3.19	−2.25		3.68	3.62	−1.50
May		3.38	3.50	−1.56		4.00	4.07	−1.12
June		3.06	3.25	−2.13		3.56	3.75	−1.69
July		2.94	3.06	−2.44		3.44	3.69	−2.37
Aug.		3.13	3.13	−3.31		3.60	3.50	−3.06

Sources: Morgan Guaranty, *World Financial Markets.*

Table a8

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	
1981	1,138.0	5.1567	502.91	209.18	2,286.7	580.30	1,341.9	1,263.4	397.50
1982	1,353.6	5.4382	557.26	206.08	2,362.0	666.47	1,494.4	1,323.7	456.90
1983	1,519.2	6.3995	594.53	199.43	2,301.7	722.77	1,624.0	1,349.7	381.50
1984	1,756.5	7.3905	617.27	201.08	2,339.8	747.54	1,800.4	1,380.9	308.30
1985	1,909.7	8.0240	650.26	213.08	2,462.5	780.26	1,939.0	1,447.8	327.00
1986	1,489.6	8.8749	686.98	215.07	2,185.5	830.61	1,747.5	1,461.9	390.90
1985 — 3rd qtr. ..	1,896.6	7.9333	664.06	217.77	2,602.6	805.63	1,948.2	1,483.6	325.75
4th " ..	1,751.7	8.4526	677.37	222.00	2,515.0	820.74	1,888.8	1,494.1	327.00
1986 — 1st qtr. ..	1,599.6	8.5203	680.94	221.77	2,302.3	808.52	1,799.4	1,476.1	344.00
2nd " ..	1,538.9	9.0712	685.67	215.56	2,321.9	825.61	1,786.7	1,475.7	346.75
3rd " ..	1,436.9	9.2194	688.50	211.85	2,141.3	851.35	1,728.3	1,454.4	423.20
4th " ..	1,389.5	8.6728	692.53	211.42	1,985.8	835.44	1,675.6	1,442.5	390.90
1987 — 1st qtr. ..	1,306.3	8.5330	710.60	213.30	2,014.1	845.45	1,647.1	1,469.3	421.00
2nd " ..	1,299.8	9.1158	719.77	215.68	2,135.1	872.01	1,682.1	1,494.5	447.30
3rd " ..	1,331.1	9.0564	723.64	216.95	2,151.9	872.53	1,699.2	1,501.4	460.35
1986 — Aug.	1,420.8	9.2217	688.62	211.29	2,110.9	854.96	1,717.0	1,450.5	384.70
Sept.	1,408.2	9.1086	690.41	210.79	2,073.9	852.57	1,704.7	1,448.1	423.20
Oct.	1,386.6	8.8753	691.92	211.34	1,977.9	844.96	1,680.3	1,441.4	401.00
Nov.	1,402.1	8.6070	692.01	211.62	1,996.2	831.31	1,680.3	1,443.2	389.50
Dec.	1,380.3	8.5057	693.74	211.30	1,984.6	828.63	1,666.6	1,443.1	390.90
1987 — Jan.	1,314.7	8.5164	709.12	212.64	1,983.1	845.21	1,644.9	1,463.9	400.50
Feb.	1,299.6	8.4646	711.39	213.55	1,982.5	842.48	1,640.3	1,467.8	405.85
Mar.	1,304.6	8.6180	711.28	213.72	2,076.9	848.65	1,656.0	1,476.3	421.00
Apr.	1,292.2	9.0497	713.32	214.21	2,106.2	864.27	1,668.9	1,482.1	453.25
May	1,291.1	9.1893	722.25	216.14	2,153.7	878.72	1,684.2	1,499.7	451.00
June	1,316.0	9.1083	723.75	216.70	2,145.5	873.03	1,693.1	1,501.6	447.30
July	1,337.1	8.8989	723.82	217.39	2,152.1	870.62	1,697.2	1,502.7	462.50
Aug.	1,345.8	9.1193	724.26	216.99	2,149.0	874.49	1,708.2	1,501.8	453.40
Sept.	1,310.3	9.1509	722.84	216.46	2,154.4	872.49	1,692.1	1,499.6	460.35

(1) End-of-period data.

Table a9

Nominal effective exchange rates (1)

(indices, 1980 = 100)

	US	Canada	Japan	Germany	France	UK	Italy	Switzerland
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	110.9
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
1985	135.1	93.9	126.8	106.2	78.4	87.1	74.2	113.5
1986	110.3	87.2	159.1	113.5	79.4	78.8	74.4	122.3
1985 — 3rd qtr.	133.1	93.7	124.0	106.7	78.8	91.0	72.5	115.2
4th "	123.7	90.6	137.4	108.5	80.1	87.8	72.3	116.8
1986 — 1st qtr.	117.1	87.6	146.6	111.2	81.3	81.9	73.4	117.5
2nd "	111.4	87.8	158.5	111.9	78.7	82.8	73.7	119.8
3rd "	106.2	86.7	168.6	114.3	78.3	77.5	74.8	126.1
4th "	106.4	86.8	162.6	116.7	79.1	72.9	75.6	125.6
1987 1st qtr.	100.7	88.6	163.5	119.2	79.0	74.0	75.0	126.2
2nd "	97.3	88.1	173.2	118.6	78.6	77.2	73.6	127.5
3rd "	98.7	89.1	169.7	118.6	78.6	77.3	73.1	126.9
1986 — Aug.	105.6	86.4	169.9	114.6	78.3	76.8	75.0	127.0
Sept.	105.5	86.4	168.7	115.3	78.3	75.6	75.2	127.0
Oct.	105.5	86.4	166.8	116.4	79.2	72.5	75.6	127.0
Nov.	107.3	86.9	160.8	116.6	79.1	73.2	75.6	124.9
Dec.	106.5	87.1	160.1	117.2	79.1	73.1	75.8	125.0
1987 — Jan.	101.9	87.3	163.2	119.2	78.9	72.9	75.3	126.6
Feb.	100.5	88.8	163.0	119.6	79.3	72.9	75.1	126.0
Mar.	99.6	89.6	164.4	118.8	78.8	76.1	74.6	125.9
Apr.	97.2	89.1	172.9	118.4	78.6	76.8	74.2	127.3
May	96.6	87.3	174.9	118.7	78.5	77.7	73.3	128.2
June	98.1	87.9	171.7	118.7	78.5	77.2	73.2	126.9
July	99.6	89.1	166.3	118.6	78.7	77.3	73.1	126.6
Aug.	99.4	89.1	169.8	118.5	78.4	77.0	73.0	126.9
Sept.	97.2	89.2	172.9	118.7	78.5	77.7	73.3	127.1

(1) Weighted on the basis of shares in trade with the 14 leading countries. — For the method of calculation, see the *Note Metodologiche* section of the Appendix to Banca d'Italia, *Relazione Annuale sul 1983.*

Table a10

Real effective exchange rates (1)

(indices, 1980 = 100)

	US	Canada	Japan	Germany	France	UK	Italy	Switzerland
1981	112.5	100.6	104.6	93.3	97.5	102.7	98.0	99.6
1982	121.2	103.1	94.0	96.3	94.3	99.8	98.1	103.5
1983	122.4	106.5	99.4	96.9	92.0	94.0	100.6	104.5
1984	128.6	105.8	101.8	94.4	91.7	91.8	102.0	102.3
1985	130.4	102.8	100.8	93.2	95.4	94.0	100.4	100.2
1986	104.5	99.5	123.1	99.2	99.9	91.4	103.3	105.3
1985 — 2nd qtr.	134.9	103.1	97.7	92.1	94.4	94.8	101.3	98.7
3rd "	128.3	102.7	98.4	93.6	96.4	98.7	98.4	101.1
4th "	119.7	99.7	107.9	95.0	98.4	96.2	99.0	102.5
1986 — 1st qtr.	111.7	98.9	115.2	97.4	100.3	92.1	101.2	102.3
2nd "	105.1	99.5	124.2	97.9	98.9	96.0	101.7	103.7
3rd "	99.9	99.6	130.5	99.9	99.5	91.1	104.0	108.3
4th "	101.1	100.0	122.6	101.7	100.9	86.6	106.2	106.7
1987 — 1st qtr.	97.0	101.0	121.5	103.4	101.0	88.3	106.3	106.0
2nd "	94.3	100.6	127.6	102.7	100.6	92.8	105.0	106.7
1986 — June	104.9	98.9	125.2	97.9	99.3	95.7	102.0	104.6
July	101.1	99.9	130.4	98.7	99.5	93.9	102.8	107.0
Aug.	99.1	99.3	132.2	100.1	99.2	90.2	104.3	109.5
Sept.	99.6	99.5	128.9	100.9	99.6	89.2	104.9	108.5
Oct.	100.1	99.6	126.1	101.6	101.0	85.8	105.9	108.5
Nov.	101.9	100.1	121.3	101.6	100.9	86.9	106.1	105.7
Dec.	101.2	100.2	120.5	102.0	100.9	87.0	106.7	105.7
1987 — Jan.	97.7	100.0	121.5	103.7	100.9	86.8	106.6	106.4
Feb.	97.1	101.1	120.8	103.7	101.3	87.1	106.5	106.0
Mar.	96.1	102.0	122.1	102.9	100.7	91.0	105.8	105.7
Apr.	94.0	101.7	127.8	102.5	100.8	92.1	105.7	106.5
May	93.7	99.7	128.7	102.9	100.6	93.5	104.7	107.2
June	95.2	100.5	126.3	102.8	100.6	92.9	104.6	106.3
July	96.6	102.0	122.3	102.9	100.9	93.1	104.5	105.7
Aug. (2)	96.5	102.0	124.6	102.7	100.5	92.8	104.4	105.8

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

(1) Based on wholesale prices of manufactures. The construction of an index of Italian producer prices including oil products, to improve comparability with the other countries, and the similar transformation of the OECD index for the Netherlands (Main Economic Indicators) have entailed a revision of the series shown in this table. — (2) Provisional and partly and estimated data.

Table a11

External position of the Italian credit system (1)

(end-of-period outstanding claims in billions of lire)

Vis-à-vis (2)	1986	1987	
	December	March	June
Industrial countries	125,859	118,552	132,476
OPEC countries	3,804	3,407	3,530
Other developing countries	9,732	9,230	9,854
of which: Latin America	*6,166*	*5,849*	*6,072*
Africa	*1,500*	*1,416*	*1,586*
Asia	*1,047*	*1,057*	*1,243*
Middle East	*1,019*	*908*	*953*
Eastern Europe	6,213	6,453	7,568
Offshore centres	11,714	11,149	14,054
International organizations	620	706	750
Total	**157,942**	**149,497**	**168,232**
Memorandum item:			
«Baker Plan» countries:			
Argentina	1,433	1,311	1,480
Bolivia	2	1	1
Brazil	1,311	1,275	1,306
Chile	269	258	249
Colombia	256	205	203
Ivory Coast	58	54	51
Ecuador	252	238	199
Philippines	221	199	192
Yugoslavia	559	503	478
Morocco	363	370	498
Mexico	1,972	1,850	1,941
Nigeria	177	167	208
Peru	353	327	313
Uruguay	38	37	36
Venezuela	674	636	635
Total	**7,938**	**7,431**	**7,790**

(1) For the purposes of this table, the Italian credit system comprises the operational units of banks and special credit institutions (branches in Italy and abroad) and the Italian branches of foreign banks; the claims are those in respect of loans granted directly to non-residents excluding those granted by branches abroad in the currency of the country in which local operators are resident. — (2) The country grouping is that adopted by the BIS.

Table a12

Sources and uses of income

(% changes on previous period)

	SOURCES			USES					
				Gross fixed investment					
	GDP	Imports	Total	Building	Equipment and vehicles	Total	Household consumption	Other domestic uses (1)	Exports
				At 1980 prices					
1982	0.2	−0.7	0.1	−6.6	−4.8	−5.7	1.1	6.4	−1.1
1983	0.5	−1.6	0.1	0.8	−4.2	−1.6	0.4	−1.5	2.3
1984	3.5	11.3	4.9	0.6	8.9	4.4	2.2	12.8	7.6
1985	2.7	5.3	3.2	−0.5	7.4	3.3	2.7	4.2	4.0
1986	2.7	5.1	3.2	−0.7	3.1	1.2	3.2	5.8	3.1
1985 — 1st qtr.	0.8	−0.3	0.6	−0.3	4.6	2.1	0.8	−0.7	−0.1
2nd "	0.6	0.3	0.5	0.4	−0.1	0.2	1.0	1.7	−1.4
3rd "	1.0	−1.1	0.6	−1.3	0.2	−0.6	1.1	−0.6	1.4
4th "	0.8	4.6	1.5	1.0	0.4	0.7	0.6	1.7	4.7
1986 — 1st qtr.	−0.3	2.1	0.2	−0.9	0.3	−0.3	0.7	3.4	−3.1
2nd "	2.0	−2.6	1.1	0.1	3.5	1.8	0.7	−4.0	5.6
3rd "	0.5	6.7	1.7	0.6	−0.5	0.1	0.9	8.1	0.3
4th "	0.2	−4.9	−0.8	−1.7	0.2	−0.7	1.2	0.1	−7.0
1987 — 1st qtr.	0.1	4.6	1.0	0.1	0.8	0.4	1.5	−0.1	1.0
2nd "	1.4	2.7	1.7	1.5	2.7	2.1	1.0	3.9	1.3
				Implicit price deflators					
1982	16.2	12.3	15.4	17.0	14.4	15.8	16.2	11.9	15.4
1983	15.3	4.8	13.3	13.0	10.7	12.1	14.9	15.0	8.6
1984	10.2	10.8	10.3	9.1	9.3	9.0	11.4	7.5	10.4
1985	8.8	7.1	8.5	8.9	7.2	7.9	9.3	6.7	8.1
1986	8.0	−16.3	3.4	3.7	5.1	4.3	6.1	1.9	−4.5
1985 — 1st qtr.	2.8	3.2	2.8	2.9	1.3	2.0	2.6	3.8	3.7
2nd "	2.4	2.5	2.4	2.1	1.9	2.0	2.5	2.9	2.0
3rd "	2.0	−1.8	1.3	1.8	1.8	1.7	1.9	−0.8	0.8
4th "	1.2	−2.1	0.6	1.1	1.5	1.3	1.8	−2.6	−0.9
1986 — 1st qtr.	2.2	−6.4	0.5	0.2	1.3	0.7	1.4	0.8	−2.8
2nd "	2.3	−7.6	0.8	0.8	0.5	0.6	1.2	3.8	−2.2
3rd "	2.1	−7.6	0.3	0.8	1.5	1.2	1.2	−2.5	−1.4
4th "	1.4	1.9	1.8	1.0	0.4	0.6	0.9	5.0	1.8
1987 — 1st qtr.	0.8	0.4	0.5	0.7	1.8	1.2	1.1	−2.0	0.1
2nd "	1.5	3.8	1.8	0.9	1.5	1.2	1.1	4.0	2.4

Source: Istat, seasonally adjusted data.
(1) Government consumption and change in stocks.

Table a13

Industrial production and business opinion indicators

(seasonally adjusted data) (1)

	INDUSTRIAL PRODUCTION				ISCO BUSINESS OPINION INDICATORS				
					Changes in level of 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 balance of monthly responses)*				
1982	95.4	97.6	95.8	93.7	−53.6	−49.2	−52.6	−14.5	17.3
1983	92.3	94.2	92.6	90.9	−51.2	−43.9	−49.0	−8.6	13.0
1984	95.4	96.3	94.4	95.2	−27.5	−26.8	−24.1	7.4	7.8
1985	96.5	97.5	99.2	94.9	−22.7	−29.7	−21.1	7.6	6.1
1986	99.2	101.1	103.1	96.5	−18.8	−23.9	−18.0	11.2	4.9
1982 — 1st qtr....	98.4	98.9	100.6	97.3	−48.9	−45.2	−47.0	−9.5	15.7
2nd " ...	95.7	97.4	97.1	94.1	−50.1	−47.0	−50.3	−11.8	18.0
3rd " ...	94.8	97.1	94.4	93.4	−54.9	−51.6	−54.3	−14.8	19.7
4th " ...	92.6	97.2	91.1	90.0	−60.6	−53.0	−58.8	−21.7	16.0
1983 — 1st qtr....	91.7	95.9	91.2	89.0	−57.6	−52.8	−58.0	−19.0	15.3
2nd " ...	91.0	93.4	90.8	89.3	−54.7	−42.9	−52.3	−11.8	17.7
3rd " ...	92.5	93.6	93.4	91.3	−49.4	−45.5	−46.5	−3.7	13.3
4th " ...	94.2	93.9	95.1	94.0	−43.2	−34.2	−39.3	0.2	5.7
1984 — 1st qtr....	93.2	93.1	92.1	93.8	−35.0	−30.6	−31.4	4.3	11.3
2nd " ...	95.3	96.9	92.1	95.3	−28.3	−22.0	−24.8	9.3	6.7
3rd " ...	97.0	97.9	96.5	96.5	−24.9	−25.1	−21.8	8.5	8.7
4th " ...	96.2	97.3	96.9	95.2	−21.7	−29.4	−18.5	7.6	4.7
1985 — 1st qtr....	96.2	96.8	98.7	94.9	−23.1	−29.1	−21.2	6.4	6.0
2nd " ...	96.8	98.0	99.0	95.1	−25.7	−30.5	−23.5	5.9	8.3
3rd " ...	96.2	97.4	98.5	94.6	−19.9	−29.4	−19.1	9.3	5.3
4th " ...	96.9	97.8	100.5	95.0	−22.2	−29.8	−20.7	8.9	4.7
1986 — 1st qtr....	98.9	100.8	102.1	96.4	−24.7	−25.8	−21.8	8.5	4.3
2nd " ...	98.7	100.3	103.7	96.0	−15.9	−24.5	−18.1	11.4	8.7
3rd " ...	98.2	99.7	101.6	96.0	−18.2	−23.7	−17.0	12.0	4.0
4th " ...	100.8	103.6	104.9	97.4	−16.3	−21.7	−15.1	13.1	2.7
1987 — 1st qtr....	101.4	104.0	103.7	98.7	−11.9	−24.8	−11.8	12.6	4.0
2nd " ...	103.7	105.1	106.6	101.7	−9.2	−27.9	−11.3	9.7	1.7

Source: Based on Istat and Isco data.
(1) Industrial production data are also adjusted for variations in the number of working days. — (2) Raw data.

Table a14

Labour market statistics (1)

(seasonally adjusted data; thousands of units and percentages)

	EMPLOYMENT									
	Agriculture	Industry excluding construction	Construction	Other	Total	Unemployment	Labour force	Unemployment rate (%) (2)	Unemployment rate (%) (3)	Participation rate (%)
1981	2,690	5,540	2,090	10,201	20,521	1,822	22,344	8.2	9.6	40.0
1982	2,516	5,433	2,084	10,470	20,502	1,947	22,449	8.7	10.2	40.1
1983	2,525	5,267	2,053	10,727	20,572	2,174	22,747	9.6	11.4	40.4
1984	2,397	5,062	1,954	11,236	20,649	2,255	22,904	9.8	11.9	40.6
1985	2,304	4,967	1,917	11,586	20,774	2,350	23,124	10.2	11.9	40.9
1986	2,232	4,938	1,874	11,821	20,865	2,611	23,476	11.1	12.6	41.5
1983 — 1st qtr.	2,493	5,334	2,060	10,659	20,546	2,106	22,651	9.3	11.1	40.3
2nd "	2,515	5,288	2,058	10,711	20,571	2,151	22,723	9.5	11.4	40.4
3rd "	2,556	5,246	2,066	10,700	20,568	2,176	22,744	9.6	11.3	40.4
4th "	2,535	5,202	2,029	10,839	20,604	2,265	22,869	9.9	11.7	40.6
1984 — 1st qtr,	2,468	5,140	1,973	10,999	20,579	2,288	22,867	10.0	11.9	40.6
2nd "	2,409	5,080	1,964	11,147	20,600	2,244	22,844	9.8	11.8	40.5
3rd "	2,383	5,034	1,941	11,359	20,716	2,230	22,946	9.7	11.9	40.7
4th "	2,326	4,995	1,940	11,440	20,701	2,259	22,960	9.8	11.9	40.7
1985 — 1st qtr.	2,291	4,971	1,957	11,476	20,695	2,267	22,962	9.9	12.0	40.6
2nd "	2,316	4,964	1,922	11,585	20,787	2,304	23,090	10.0	11.6	40.9
3rd "	2,302	4,978	1,886	11,623	20,789	2,387	23,176	10.3	11.9	41.0
4th "	2,307	4,955	1,902	11,661	20,824	2,443	23,268	10.5	12.1	41.2
1986 — 1st qtr.	2,277	4,959	1,900	11,738	20,873	2,487	23,360	10.6	12.3	41.3
2nd "	2,214	4,951	1,878	11,778	20,820	2,549	23,370	10.9	12.6	41.3
3rd "	2,206	4,921	1,868	11,851	20,847	2,668	23,515	11.3	12.7	41.5
4th "	2,230	4,923	1,849	11,916	20,918	2,741	23,659	11.6	12.9	41.8
1987 — 1st qtr.	2,233	4,862	1,851	11,934	20,879	2,745	23,624	11.6	12.8	41.7

Source: Based on Istat data.

(1) The annual data are the averages of the raw quarterly data and therefore do not necessarily coincide with the averages of the seasonally adjusted data. — (2) Ratio of unemployment to the labour force. — (3) Corrected for workers on wage supplementation.

Wholesale and consumer prices

(% changes on corresponding period)

	Wholesale prices				Consumer prices				Cost of living	*Scala mobile* index
	Consumer goods	Invest-ment goods	Inter-mediate goods	Total	Food	Non-food products	Services	Total		
1981	16.5	17.8	18.0	17.5	18.2	18.6	22.7	19.5	19.3	18.4
1982	14.8	14.8	12.9	13.9	16.4	15.7	17.5	16.5	16.4	16.0
1983	11.3	13.0	8.0	9.7	12.3	14.1	18.2	14.7	14.9	13.9
1984	9.8	9.8	10.9	10.4	9.1	10.4	13.2	10.8	10.6	11.1
1985	8.4	7.8	6.5	7.3	8.7	8.6	10.4	9.2	8.6	8.4
1986	3.0	5.7	−5.4	−0.9	5.5	3.7	8.9	5.9	6.1	5.9
1985 — 1st qtr.	8.1	8.2	8.6	8.4	8.2	8.5	11.6	9.3	8.6	8.6
2nd "	9.0	8.1	7.8	8.3	8.5	9.0	10.9	9.4	8.8	8.7
3rd "	8.3	7.9	5.7	6.9	8.8	8.8	9.8	9.1	8.5	8.3
4th "	8.0	7.2	4.0	5.9	9.2	8.2	9.4	8.9	8.5	8.1
1986 — 1st qtr.	5.5	6.8	−0.7	2.5	7.7	6.0	9.2	7.5	7.6	6.6
2nd "	2.5	5.8	−6.0	−1.4	5.8	3.7	9.3	6.1	6.4	5.5
3rd "	2.2	5.6	−7.4	−2.2	4.9	3.1	8.9	5.5	5.9	6.0
4th "	1.9	4.9	−7.5	−2.4	3.8	2.0	8.1	4.4	4.7	5.6
1987 — 1st qtr.	2.5	5.2	−4.0	−0.4	4.1	2.9	6.2	4.3	4.3	5.6
2nd "	3.3	5.9	0.8	2.4	4.2	3.8	5.4	4.4	4.2	5.3
3rd "									4.6	
1986 — July	2.0	5.6	−7.2	−2.2	4.9	3.2	9.0	5.5	5.9	5.9
Aug.	2.5	5.8	−7.5	−2.1	4.9	3.1	8.9	5.5	5.9	6.2
Sept.	2.2	5.3	−7.5	−2.3	4.9	2.9	8.8	5.3	5.8	5.8
Oct.	2.0	5.0	−7.5	−2.4	3.9	2.4	8.3	4.7	5.1	5.6
Nov.	2.1	4.8	−7.5	−2.3	3.8	2.0	8.0	4.4	4.7	5.6
Dec.	1.7	4.8	−7.4	−2.5	3.6	1.5	8.0	4.2	4.3	5.6
1987 — Jan.	2.2	5.7	−6.3	−1.7	4.1	2.0	7.1	4.2	4.5	5.9
Feb.	2.7	4.9	−3.7	−0.2	4.0	3.3	6.0	4.4	4.2	5.6
Mar.	2.8	5.0	−2.1	0.6	4.0	3.3	5.6	4.2	4.2	5.4
Apr.	3.1	5.3	−0.6	1.6	4.2	3.6	5.4	4.4	4.2	5.5
May	3.5	6.3	1.3	2.7	4.2	3.7	5.5	4.4	4.2	5.2
June	3.4	6.2	1.8	2.9	4.1	4.3	5.4	4.5	4.1	5.3
July	3.7	5.8	3.4	3.8	4.0	4.7	5.5	4.7	4.4	5.2
Aug.	3.3	6.1	4.4	4.1	4.0	5.0	5.4	4.8	4.5	5.0
Sept.									5.0	

Source: Istat.

Table a16

Italy's real exchange rates

(indices 1980 = 100)

	with respect to:							
	Germany	France	UK	Belgium	Netherlands	US	EEC countries (1)	13 industrial countries (2)
1981	103.6	100.7	93.1	105.2	99.9	80.1	101.3	98.0
1982	101.4	104.3	95.2	115.5	99.2	74.3	102.4	98.2
1983	103.2	109.0	102.2	122.9	103.4	72.2	106.2	100.7
1984	106.7	110.9	104.5	128.0	105.1	67.4	109.1	102.0
1985	106.5	105.9	101.1	126.5	106.3	66.4	107.1	100.4
1986	104.3	104.4	109.4	126.1	114.8	88.6	107.3	103.3
1985 — 1st qtr.	109.7	110.9	110.4	129.6	107.6	61.7	111.4	102.9
2nd "	108.3	107.7	100.4	128.2	107.3	64.1	108.5	101.3
3rd "	104.4	103.0	95.0	124.1	104.5	67.0	104.3	98.4
4th "	103.8	101.8	98.6	124.0	105.8	73.0	104.3	99.0
1986 — 1st qtr.	103.9	102.2	105.8	124.9	110.8	81.0	105.7	101.2
2nd "	103.9	103.9	102.4	124.9	114.1	85.3	106.0	101.7
3rd "	104.3	105.4	110.6	126.9	116.8	92.4	108.0	104.0
4th "	105.0	106.0	119.1	127.8	117.7	95.7	109.5	106.2
1987 — 1st qtr.	103.7	106.0	117.9	126.1	116.4	101.9	108.5	106.3
2nd "	103.1	105.1	111.2	126.0	115.6	102.2	107.2	105.0
1986 — July	104.3	104.3	105.8	126.4	116.6	89.4	107.0	102.8
Aug.	104.4	105.9	111.9	127.2	116.7	93.4	108.3	104.3
Sept.	104.4	106.0	114.0	127.2	117.0	94.3	108.6	104.9
Oct.	104.7	105.7	119.6	127.7	118.2	95.8	109.3	105.9
Nov.	105.0	105.9	118.5	127.6	117.3	94.8	109.3	106.1
Dec.	105.2	106.4	119.2	128.2	117.4	96.6	109.7	106.7
1987 — Jan.	103.7	106.3	120.0	126.4	116.3	101.5	108.9	106.6
Feb.	103.6	105.9	119.6	125.9	116.9	102.3	108.7	106.5
Mar.	103.7	105.8	114.0	125.9	116.0	101.7	108.0	105.8
Apr.	103.8	105.6	112.5	126.5	116.3	102.8	107.9	105.6
May	102.7	104.9	110.2	125.6	115.1	102.9	106.8	104.6
June	102.9	104.9	110.9	125.9	115.3	100.8	107.0	104.7
July	102.9	104.5	110.6	127.2	117.6	98.6	107.1	104.7
Aug. (3)	102.6	104.8	110.6	127.3	118.3	98.2	107.1	104.5

(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. — (3) Provisional and partly estimated data.

Table a17

Balance of payments on a settlements basis (1)

(billions of lire)

	Goods (2)	Services and transfers: Foreign travel	Services and transfers: Income from capital	Services and transfers: Other	Services and transfers: Total	Balance on current account	Non-bank capital flows plus errors and omissions	Balance of non-monetary transactions	Bank capital flows (3)	Change in official reserves (3)
1981	−14,017	6,693	−4,151	3,800	6,342	−7,675	9,208	1,533	−1,524	−9
1982	−17,189	8,928	−5,815	4,028	7,141	−10,048	7,527	−2,521	−3,062	5,583
1983	−9,176	10,953	−6,418	5,347	9,882	706	3,087	3,793	4,995	−8,788
1984	−18,352	11,412	−7,554	7,240	11,098	−7,254	7,311	57	5,138	−5,195
1985 (4)	−18,685	12,362	−8,496	7,058	10,924	−7,761	−591	−8,352	−5,299	13,651
1986 (4)	−4,716	10,579	−8,466	3,268	5,381	665	−3,630	−2,965	6,454	−3,489
1985 — Sept.	−1,839	1,430	−634	639	1,435	−404	−1,121	−1,525	−940	2,465
Oct.	−1,569	1,108	−915	−66	127	−1,442	822	−620	−1,179	1,799
Nov.	−1,247	702	−603	455	554	−693	−1,238	−1,931	−689	2,620
Dec.	−2,520	652	−598	441	495	−2,025	592	−1,433	−3,126	4,559
1986 — Jan.	−1,194	432	−875	108	−335	−1,529	−1,515	−3,044	388	2,656
Feb.	−1,149	358	−546	118	−70	−1,219	−359	−1,578	2,274	−696
Mar.	−1,073	544	−947	207	−196	−1,269	−805	−2,074	2,928	−854
Apr.	−1,043	687	−1,115	163	−265	−1,308	3,595	2,287	−1	−2,286
May	−137	1,128	−803	345	670	533	1,022	1,555	2,181	−3,736
June	−237	1,245	−721	1,063	1,587	1,350	−686	664	−378	−286
July	423	1,672	−593	433	1,512	1935	−476	1,459	−567	−892
Aug.	1,371	1,148	−406	718	1,460	2,831	−2,128	703	−1,464	761
Sept.	−212	1,297	−635	377	1,039	827	−2,524	1,697	−331	2,028
Oct.	356	952	−850	333	435	791	−1,442	−651	1,953	−1,302
Nov.	−271	488	−628	7	−133	−404	271	−133	−549	682
Dec.	−1,692	550	−1,074	−544	−1,068	−2,760	2,304	−456	20	436
1987 — Jan.	48	209	−716	1,071	564	612	−992	−380	619	−239
Feb.	−753	260	−949	674	−15	−768	2,210	1,442	2,377	−3,819
Mar.	−579	571	−625	−93	−147	−726	1,652	926	272	−1,198
Apr.	−526	886	−684	681	883	357	1,222	1,579	−883	−696
May	−1,560	942	−1,226	333	49	−1,511	−1,354	−2,865	1,011	1,854
June	−1,455	1,543	−876	1,061	1,728	273	−2,776	−2,503	788	1,715
July								−553	−1,343	1,896
Aug.								−1,026	−3,256	4,282
Sept.								919	3,237	−4,156

(1) Data for the last 3 months are provisional. — (2) Imports: cif; exports: fob. — (3) Adjusted for exchange rate variations and, in the case of official reserves, for the price of gold; a minus sign indicates an increase in net assets. — (4) Annual totals may not coincide whith the sum of the monthly totals because of the provisional nature of the data.

External position of BI-UIC (1)

	Short-term position							Medium and long-term position	Total official reserves (2)
	Assets					Liabilities	Balance (2)		
	Gold	Convertible currencies	ECUs	SDRs	Reserve position in the IMF				
	(billions of lire)								
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 — Dec.	41,887	23,794	13,159	1,346	2,079	−263	82,002	−189	81,813
1985 — Dec.	39,530	16,536	7,139	879	1,946	−205	65,825	−616	65,209
1986 — Sept.	34,824	14,405	10,082	932	1,717	−216	61,744	−777	60,967
Oct.	34,824	15,732	10,149	1,009	1,707	−160	63,261	−743	62,518
Nov.	34,824	14,680	10,138	1,095	1,719	−199	62,257	−768	61,489
Dec.	35,203	14,340	10,158	1,085	1,713	−285	62,214	−803	61,411
1987 — Jan.	35,203	14,895	10,133	1,072	1,637	−532	62,408	−801	61,607
Feb.	35,203	18,421	10,156	1,102	1,682	−261	66,303	−800	65,503
Mar.	35,243	19,560	10,211	1,109	1,698	−165	67,656	−788	66,868
Apr.	35,243	20,034	10,527	1,120	1,714	−115	68,523	−789	67,734
May	35,243	18,278	10,608	1,186	1,803	−57	67,061	−778	66,283
June	36,300	16,771	10,635	1,174	1,768	−99	66,549	−823	65,726
July	36,300	14,643	11,258	1,287	1,796	−292	64,992	−826	64,166
Aug.	36,300	10,187	11,235	1,294	1,793	−159	60,650	−829	59,821
Sept.	37,646	20,405	5,142	1,293	1,790	−86	66,190	−830	66,360
	(millions of dollars)								
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 — Dec.	21,637	12,291	6,797	695	1,074	−136	42,359	−98	42,261
1985 — Dec.	23,558	9,855	4,254	524	1,160	−122	39,228	−367	38,861
1986 — Sept.	24,954	10,322	7,225	668	1,230	−155	44,245	−557	43,688
Oct.	24,954	11,021	7,110	707	1,196	−112	44,875	−521	44,354
Nov.	24,954	10,713	7,398	799	1,255	−145	44,974	−560	44,414
Dec.	26,055	10,614	7,518	803	1,268	−211	46,047	−594	45,453
1987 — Jan.	26,055	11,561	7,865	832	1,271	−413	47,171	−621	46,549
Feb.	26,055	14,172	7,814	848	1,294	−201	49,982	−616	49,366
Mar.	27,385	15,199	7,934	862	1,319	−128	52,571	−612	51,959
Apr.	27,385	15,667	8,233	876	1,340	−90	53,411	−617	52,794
May	27,385	13,907	8,071	902	1,372	−43	51,594	−592	51,002
June	27,366	12,644	8,018	885	1,333	−75	50,171	−620	49,551
July	27,366	10,895	8,376	958	1,336	−217	48,714	−615	48,100
Aug.	27,366	7,751	8,549	985	1,364	−121	45,894	−631	45,263
Sept.	28,387	15,386	3,877	974	1,350	−65	49,910	−625	49,285

(1) Data for the last 3 months are provisional. — (2) The dollar values may 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 trans-actions (2)	Borrowing require-ment (–)	Borrowing requirement net of debt settlements in securities	of which: settle-ments of past debts in cash
	Fiscal	Other	Total	Current expendi-ture	Capital expendi-ture	Total					
1981	88,849	19,448	108,297	–131,271	–22,394	–153,665	–45,368	–7,925	–53,293	–49,613	–17
1982	114,048	40,515	154,563	–175,848	–35,440	–211,288	–56,725	–15,977	–72,702	–71,990	–1,298
1983	143,554	36,700	180,254	–202,236	–50,841	–253,077	–72,823	–15,434	–88,257	–88,257	—
1984	160,627	41,502	202,129	–246,304	–48,761	–295,065	–92,936	–2,452	–95,388	–95,388	—
1985	177,645	46,642	224,287	–283,736	–54,988	–338,724	–114,437	–8,391	–122,828	–112,425	–2,188
1986	202,091	51,943	254,034	–307,513	–63,681	–371,194	–117,160	6,968	–110,192	–110,192	–606
1985 — 1st qtr.	35,337	7,393	42,730	–59,668	–11,998	–71,666	–28,936	1,080	–27,856	–27,856	–981
2nd "	43,134	7,041	50,175	–73,682	–8,917	–82,599	–32,424	–403	–32,828	–25,791	–788
3rd "	42,002	7,325	49,327	–69,784	–13,706	–83,490	–34,163	1,426	–32,736	–29,798	–216
4th "	57,172	24,883	82,055	–80,601	–20,367	–100,968	–18,913	–10,495	–29,408	–28,980	–202
1986 — 1st qtr.	42,727	7,363	50,090	–62,849	–1,649	–64,498	–14,408	–11,839	–26,247	–26,247	–337
2nd "	55,143	11,092	66,235	–69,446	–14,814	–84,260	–18,025	–1,912	–19,937	–19,937	–79
3rd "	37,669	11,304	48,973	–87,125	–17,475	–104,600	–55,627	19,422	–36,205	–36,205	–127
4th "	66,552	22,184	88,736	–88,093	–29,743	–117,836	–29,100	1,297	–27,803	–27,803	–64
1987 — 1st qtr.	44,639	11,286	55,925	–68,748	–11,776	–80,524	–24,599	–267	–24,866	–24,866	–41
2nd "	59,020	9,952	68,972	–95,762	–12,641	–108,403	–39,432	17,707	–21,725	–21,725	–31
3rd "	43,309	12,015	55,324	–71,013	–17,195	–88,208	–32,884	–5,269	–38,153	–38,153	–19
1986 — Oct.	16,792	3,390	20,182	–21,152	–2,994	–24,146	–3,964	–3,114	–7,078	–7,078	–8
Nov.	14,369	3,197	17,566	–28,537	–15,964	–44,501	–26,935	12,235	–14,700	–14,700	–13
Dec.	35,391	15,597	50,988	–38,404	–10,785	–49,189	1,799	–7,824	–6,025	–6,025	–42
1987 — Jan.	16,079	4,207	20,286	–17,716	–714	–18,429	1,857	–2,595	–738	–738	—
Feb.	12,436	3,617	16,053	–21,775	–1,114	–22,888	–6,835	–4,284	–11,119	–11,119	–39
Mar.	16,124	3,461	19,585	–29,257	–9,949	–39,206	–19,621	6,612	–13,009	–13,009	–2
Apr.	12,450	3,227	15,677	–20,946	–5,820	–26,766	–11,089	–4,346	–15,435	–15,435	–21
May	18,253	3,015	21,268	–32,113	–2,464	–34,577	–13,310	3,313	–9,997	–9,997	–10
June	28,317	3,710	32,027	–42,703	–4,357	–47,060	–15,033	18,739	3,706	3,706	—
July	15,292	3,353	18,645	–28,496	–7,386	–35,882	–17,237	3,353	–13,884	–13,884	–18
Aug.	15,802	6,399	22,201	–26,628	–4,362	–30,990	–8,789	–640	–9,429	–9,429	–1
Sept. (3)	12,215	2,263	14,478	–15,889	–5,447	–21,336	–6,858	–7,982	–14,840	–14,840	—

(1) Rounding may cause discrepancies in totals. — (2) Minor Treasury operations and those of the Deposits and Loans Fund, the autonomous government agencies, the State Railways and the Southerm Italy Development Agency. — (3) Provisional and partly estimated data.

Table a20

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 deposits	Foreign loans	Other	Borrowing require-ment	of which: creation of monetary base (2)
	Total	of which: floating rate Treasury credit certificates		Total	of which: Treasury overdraft with B.I.					
1981	7,354	2,816	33,783	6,734	6,186	2,591	2,515	316	53,293	14,233
1982	23,473	27,378	32,604	8,883	6,598	3,586	2,570	1,586	72,702	12,676
1983	69,315	66,652	11,071	−1,125	−8,622	4,937	1,259	2,800	88,257	4,514
1984	62,763	56,738	9,300	13,288	18,555	6,057	2,271	1,709	95,388	10,027
1985	93,207	78,567	13,181	3,689	6,340	9,268	2,937	545	122,828	27,519
1986	87,073	53,534	9,697	1,673	4,525	11,300	856	−407	110,192	10,994
1985 — 1st qtr.	23,265	19,445	−2,166	5,948	8,201	1,486	−685	8	27,856	10,135
2nd "	23,772	15,651	10,183	−2,172	−1,757	246	1,977	−1,178	32,828	−405
3rd "	20,923	20,745	10,353	−535	678	−7	911	1,091	32,736	3,538
4th "	25,247	22,727	−5,189	447	−782	7,543	735	625	29,408	14,250
1986 — 1st qtr	17,909	11,345	−2,039	9,572	8,266	1,198	−114	−279	26,247	11,084
2nd "	31,584	19,888	400	−12,839	−10,806	231	313	248	19,937	−10,802
3rd "	15,519	7,517	10,352	9,367	9,127	1,210	252	−494	36,205	3,229
4th "	22,061	14,785	984	−4,427	−2,061	8,661	406	118	27,803	7,484
1987 — 1st qtr.	22,637	16,406	−6,986	7,632	6,596	2,045	455	−916	24,866	1,683
2nd "	21,463	8,425	1,562	−2,015	−1,490	942	416	−643	21,725	2,500
3rd "	12,607	9,603	19,795	3,201	3,458	1,828	2	719	38,153	9,140
1986 — Oct.	9,674	7,880	779	−4,185	−2,804	543	37	229	7,078	2,855
Nov.	8,773	4,935	518	4,462	4,661	1,174	30	−257	14,700	4,313
Dec.	3,614	1,970	−314	−4,704	−3,918	6,944	339	146	6,025	317
1987 — Jan.	1,910	2,566	−5,533	2,141	2,250	2,743	92	−614	738	7,515
Feb.	12,278	9,890	−1,698	−22	−763	14	402	145	11,119	−5,368
Mar.	8,449	3,950	246	5,512	5,109	−712	−39	−447	13,009	−464
Apr.	12,697	4,722	1,924	1,011	963	−221	−22	47	15,435	638
May	8,705	4,796	2,651	−2,450	−1,578	396	476	220	9,997	3,379
June	62	−1,093	−3,012	−576	−875	768	−38	−909	−3,706	−1,518
July	5,824	5,445	6,506	203	579	673	41	636	13,884	5,177
Aug.	2,560	1,683	5,397	750	672	742	−13	−7	9,429	3,184
Sept. (3)	4,223	2,475	7,892	2,248	2,207	413	−26	90	14,840	779

(1) Rounding may cause discrepancies in totals. — (2) 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. — (3) Provisional and partly estimated data.

Table a21

The domestic public debt (1)

(face value; billions of lire)

	Medium and long-term securities excluding BI portfolio	Treasury bills excluding BI portfolio	PO deposits	Lending by credit institutions	Other domestic debt	Sub-total	Borrowing from BI-UIC	Public sector total	of which: state sector
1980 — Dec. . . .	49,527	70,123	33,048	17,432	1,700	171,830	52,978	224,808	209,238
1981 — Dec. . . .	55,802	98,357	35,639	18,420	1,779	209,996	66,556	276,552	261,178
1982 — Dec. . . .	80,893	127,395	39,225	23,613	1,938	273,065	78,670	351,735	332,442
1983 — Mar. . . .	91,314	123,206	39,737	23,271	1,979	279,508	85,051	364,559	345,835
June . . .	110,474	133,073	39,644	24,272	2,019	309,483	75,961	385,444	366,922
Sept. . .	133,639	139,198	39,893	25,061	2,084	339,875	74,647	414,522	395,865
Dec. . . .	149,832	137,772	44,162	29,312	2,147	363,226	79,631	442,856	421,095
1984 — Mar. . . .	165,901	134,604	45,687	30,616	2,196	379,004	82,914	461,918	439,410
June . . .	182,556	140,249	45,734	32,570	2,246	403,355	80,740	484,095	459,614
Sept. . .	194,300	149,936	46,173	34,314	2,290	427,013	83,208	510,221	484,023
Dec. . . .	207,740	152,691	50,219	38,024	2,379	451,052	92,863	543,915	515,655
1985 — Mar. . . .	230,366	146,955	51,705	38,837	2,429	470,291	102,991	573,282	544,999
June . . .	250,648	159,816	51,951	37,357	2,434	502,206	102,664	604,870	576,645
Sept. . .	272,794	165,217	51,944	35,940	2,457	528,352	106,015	634,367	608,471
Dec. . . .	294,558	150,814	59,487	35,925	2,451	543,235	120,286	663,521	638,358
1986 — Mar. . . .	306,249	153,075	60,686	34,931	2,384	557,324	131,536	688,861	665,195
June . . .	335,484	154,261	60,917	35,712	2,399	558,773	120,596	709,369	685,220
Sept. . .	359,093	163,507	62,126	34,723	2,457	621,906	123,504	745,410	721,584
Dec. . . .	374,514	159,187	70,787	37,444	2,475	644,407	130,955	775,361	750,055
1987 — Jan. . . .	370,781	153,757	73,530	37,330	2,502	637,900	138,381	776,281	750,728
Feb. . . .	388,580	152,690	73,545	37,381	2,513	654,709	132,887	787,595	761,947
Mar. . . .	402,214	154,059	72,833	36,788	2,515	668,408	132,528	800,937	775,658
Apr. . . .	414,528	157,482	72,612	36,803	2,518	683,943	133,328	817,271	791,872
May . . .	418,646	158,535	73,007	36,736	2,566	689,491	136,753	826,244	801,658
June . . .	419,705	156,222	73,775	37,634	2,567	689,902	135,268	825,170	798,342

(1) Rounding may cause discrepancies in totals.

Table a22

Monetary base (1)

(billions of lire)

	SOURCES						
		Treasury					
			of which:				
	Foreign sector	Total	BI-UIC government securities	Treasury overdraft with BI	*Memorandum item: undrawn overdraft facility*	Refinancing	Other sectors
1983 — Dec.	17,550	81,244	43,614	23,288	*13,469*	3,100	–5,465
1984 — Dec.	22,691	91,271	40,245	41,842	*1,282*	2,882	–6,569
1985 — Dec.	9,013	118,774	64,019	48,182	*2,960*	8,763	–7,199
1986 — Sept.	12,339	122,284	61,417	54,768	*2,051*	3,551	–9,630
Oct.	13,622	125,139	68,455	51,963	*5,605*	3,570	–12,726
Nov.	12,965	129,451	68,306	56,625	*1,052*	2,965	–11,061
Dec.	12,557	129,728	73,285	52,707	*5,054*	4,429	–8,163
1987 — Jan.	12,754	137,243	78,632	54,957	*6,381*	3,206	–8,921
Feb.	16,546	131,874	73,283	54,194	*7,144*	3,128	–9,967
Mar.	17,745	131,410	67,304	59,303	*2,100*	3,191	–11,162
Apr.	18,464	132,049	66,924	60,266	*1,202*	3,122	–11,140
May	16,628	135,427	72,720	58,689	*2,779*	3,439	–12,445
June	15,056	133,910	71,796	57,814	*3,768*	3,606	–9,667
July (2)	13,161	139,087	76,762	58,393	*3,389*	4,861	–10,409
Aug. (2)	8,880	142,271	79,355	59,059	*2,723*	4,040	–10,819
Sept. (2)	9,542	143,050	77,877	61,266	*702*	3,272	–11,005

	USES						TOTAL MONETARY BASE
	Non-state sector		Banks				
	Total	of which: notes and coin	Compulsory reserves	Deposit against overshoots of lending ceiling	Liquidity	Total	
1983 — Dec.	37,364	37,325	55,017	2	4,045	59,065	96,428
1984 — Dec.	41,225	41,195	63,872	—	5,178	69,050	110,275
1985 — Dec.	45,227	44,997	76,086	—	8,038	84,123	129,351
1986 — Sept.	44,281	44,189	80,439	6	3,819	84,263	128,544
Oct.	43,847	43,654	82,513	6	3,239	85,757	129,605
Nov.	44,643	44,442	84,103	5	5,570	89,677	134,320
Dec.	48,371	48,197	85,107	—	5,072	90,180	138,550
1987 — Jan.	45,385	45,248	94,917	—	3,979	98,896	144,281
Feb.	45,092	44,995	93,092	—	3,397	96,489	141,581
Mar.	45,138	45,018	91,228	—	4,819	96,047	141,185
Apr.	45,900	45,744	92,075	—	4,519	96,595	142,495
May	46,767	46,610	92,743	—	3,541	96,283	143,050
June	47,164	47,036	91,970	—	3,772	95,741	142,905
July (2)	50,301	50,188	93,322	—	3,077	96,399	146,700
Aug. (2)	47,734	47,551	93,046	—	3,592	96,638	144,372
Sept. (2)	48,077	47,894	92,515	—	4,267	96,782	144,859

(1) Rounding may cause discrepancies in totals. — (2) Provisional. — (3) Open market sales of securities excluding those made in connection with advances granted under the Ministerial Decree of 27.9.1974.

Monetary base (1)

(changes in billions of lire)

	Foreign sector	Treasury	Refinancing	Other	TOTAL	Non-state sector	Banks: Compulsory reserves	Banks: Deposits against ceiling overshoots	Banks: Liquidity
1983	8,840	4,514	−3	−747	12,604	4,081	9,092	−927	359
1984	5,141	10,027	−218	−1,103	13,847	3,861	8,855	−2	1,133
1985	−13,677	27,519	5,881	−647	19,076	4,002	12,213	—	2,860
1986	3,543	10,994	−4,334	−1,004	9,200	3,143	9,022	—	−2,965
1986 — Sept.	−2,030	1,199	527	371	68	−422	−54	−5	550
Oct.	1,283	2,855	19	−3,096	1,060	−433	2,074	—	−580
Nov.	−657	4,313	−605	1,665	4,715	795	1,590	−1	2,331
Dec.	−408	316	1,464	2,858	4,230	3,728	1,004	−5	−497
1987 — Jan.	197	7,515	−1,223	−758	5,731	−2,985	9,810	—	−1,094
Feb.	3,792	−5,368	−78	−1,046	−2,700	−294	−1,825	—	−581
Mar.	1,199	−464	63	−1,195	−397	46	−1,864	—	1,421
Apr.	719	638	−69	22	1,311	762	847	—	−299
May	−1,835	3,379	317	−1,305	556	867	667	—	−979
June	−1,573	−1,518	167	2,778	−145	397	−773	—	230
July (2)	−1,895	5,177	1,255	−742	3,795	3,137	1,352	—	−694
Aug. (2)	−4,281	3,184	−821	−410	−2,328	−2,567	−276	—	515
Sept. (2)	662	779	−768	−186	487	343	−531	—	675

Monetary base financing of the Treasury

(billions of lire)

	Borrowing requirement	Net sales of securities: Primary market (3): Treasury bills	Primary market (3): Treasury credit certificates	Primary market (3): Other	Open market (3): Total	Open market (3): of which: repurchase agreements	Net sales of securities: TOTAL	Other forms of non-monetary financing	Monetary financing
1983	88,257	8,632	−59,603	−2,250	−21,609	−1,628	−74,829	−8,914	4,514
1984	95,387	−13,187	−54,436	−2,796	−5,012	2,661	−75,431	−9,929	10,027
1985	122,829	1,802	−68,695	−14,504	−1,480	4,933	−82,877	−12,433	27,519
1986	110,192	−6,455	−47,664	−31,622	−1,823	1,913	−87,563	−11,635	10,994
1986 — Sept.	14,265	−2,342	−4,451	−4,242	−2,178	−910	−13,214	148	1.199
Oct.	7,078	−425	−7,942	−2,757	7,709	7,766	−3,415	−808	2,855
Nov.	14,701	1,900	−4,204	−2,126	−5,011	−5,015	−9,441	−948	4,312
Dec.	6,024	3,248	−339	−1,143	−47	−40	1,719	−7,427	317
1987 — Jan.	738	4,866	−3,066	68	7,103	7,385	8,971	−2,194	7,515
Feb.	11,119	2,091	−10,013	−2,364	−5,643	−4,575	−15,929	−559	−5,368
Mar.	13,009	1,070	−2,591	−3,186	−9,967	−8,255	−14,674	1,201	−464
Apr.	15,435	−1,237	−4,595	−5,658	−3,510	635	−15,000	203	638
May	9,997	−1,193	−4,063	−2,604	2,300	2,378	−5,559	−1,059	3,379
June	−3,706	2,569	1,003	−1,052	−493	−461	2,027	162	−1,518
July (2)	13,884	−5,943	−3,269	−1,436	3,374	3,481	−7,274	−1,433	5,177
Aug. (2)	9,429	−6,386	−1,568	−874	3,465	3,400	−5,363	−881	3,184
Sept. (2)	14,840	−5,896	−1,523	−1,181	−4,984	−6,088	−13,584	−477	779

(1) Rounding may cause discrepancies in totals. — (2) Provisional. — (3) Open market sales of securities excluding those made in connection with advances granted under the Ministerial Decree of 27.9.1974.

Table a23

BI-UIC operations in government securities (1)

(billions of lire)

	Primary market		Open market				Variations in BI-UIC portfolio
				of which: repurchase agreements			
	Subscriptions	Redemptions	Total	Financing of subscriptions	Other purchases	Sales	
			Treasury bills				
1983	38,342	18,639	−15,946	−179	—	420	3,757
1984	12,597	16,484	−5,947	636	—	780	−9,834
1985	25,549	10,566	35	−386	1,075	−1,200	15,018
1986	24,420	21,179	−1,844	1,798	−320	—	1,397
1986 — Sept.	873	395	−646	1,091	−482	—	−168
Oct.	1,362	1,008	4,052	1,011	3,042	—	4,406
Nov.	3,768	1,350	−4,416	−3,777	−643	—	−1,998
Dec.	4,832	1,898	57	1,697	−1,644	—	2,991
1987 — Jan.	2,019	2,687	355	−1,694	2,050	—	−313
Feb.	941	549	−788	296	−1,060	—	−396
Mar.	5,660	4,345	−2,670	−267	−1,745	—	−1,355
Apr.	2,639	1,952	−2,015	635	—	—	−1,328
May	3,586	2,128	−282	−540	270	—	1,176
June	611	1,054	169	457	−270	—	−274
July	2,802	2,339	2,272	1,431	871	—	2,735
Aug. (2)	8	997	310	950	−640	—	−679
Sept. (2)	4,800	2,804	−472	−338	−231	—	1,524
			Treasury credit certificates				
1983	8,515	1,465	−5,229	—	—	1,029	1,821
1984	6,993	4,691	1,128	—	—	−2,805	3,430
1985	9,962	91	750	—	2,551	−455	10,621
1986	8,068	2,181	−607	—	−135	—	5,280
1986 — Sept.	69	310	−1,384	—	−1,392	—	−1,625
Oct.	768	831	3,377	—	3,663	—	3,314
Nov.	792	61	−637	—	−570	—	94
Dec.	1,631	1	−337	—	−678	—	1,294
1987 — Jan.	68	528	6,306	—	6,849	—	5,846
Feb.	58	181	−3,819	—	−3,386	—	−3,942
Mar.	1,415	56	−6,538	—	−5,878	—	−5,179
Apr.	130	—	−16	—	—	—	114
May	748	15	1,729	—	2,028	—	2,462
June	14	5	−58	—	−303	—	−49
July	2,155	—	−264	—	−175	—	1,891
Aug. (2)	92	—	3,780	—	3,747	—	3,872
Sept. (2)	977	—	−4,019	—	−4,652	—	−3,042

(1) Final figures are given at book values. The portfolio variations differ from those given by the BI-UIC accounts since they do not include sales of securities made to supply collateral for advances granted under the Ministerial Decree of 27 September 1974. — (2) Provisional.

BI-UIC operations in government securities (1)

(billions of lire)

	Primary market		Open market				Variations in BI-UIC portfolio
				of which: repurchase agreements			
	Subscriptions	Redemptions	Total	Financing of subscriptions	Other purchases	Sales	
			Other government securities				
1983	2,481	2,068	–434	—	—	—	–21
1984	5,806	2,578	–193	—	—	—	3,036
1985	3,912	3,497	–2,264	—	38	—	–1,849
1986	6,653	4,620	544	—	572	—	2,577
1986 — Sept.	125	—	–148	—	–127	—	–23
Oct.	607	1,569	280	—	50	—	–682
Nov.	1,723	11	43	—	–25	—	1,755
Dec.	501	—	233	—	585	—	734
1987 — Jan.	34	662	442	—	180	—	–186
Feb.	24	—	–1,035	—	–425	—	–1,011
Mar.	1,313	—	–759	—	–365	—	554
Apr.	2,314	—	–1,479	—	—	—	835
May	1,305	—	853	—	620	—	2,158
June	3	—	–604	—	–345	—	–601
July	81	1,117	1,366	—	1,354	—	330
Aug. (2)	26	—	–625	—	–657	—	–599
Sept. (2)	542	—	–493	—	–867	—	49
				TOTAL			
1983	49,338	22,172	–21,609	–179	—	1,449	5,557
1984	25,396	23,753	–5,012	636	—	–2,025	–3,368
1985	39,423	14,154	–1,479	–386	3,664	–1,655	23,790
1986	39,141	27,980	–1,907	1,798	117	—	9,254
1986 — Sept.	1,067	705	–2,178	1,091	–2,001	—	–1,816
Oct.	2,737	3,408	7,709	1,001	6,755	—	7,038
Nov.	6,283	1,422	–5,011	–3,777	–1,238	—	–149
Dec.	6,965	1,899	–47	1,697	–1,737	—	5,019
1987 — Jan.	2,121	3,877	7,103	–1,694	9,079	—	5,347
Feb.	1,023	730	–5,643	296	–4,871	—	–5,349
Mar.	8,388	4,401	–9,967	–267	–7,988	—	–5,980
Apr.	5,083	1,952	–3,510	635	—	—	–379
May	5,639	2,143	2,300	–540	2,910	—	5,796
June	628	1,059	–493	457	–918	—	–924
July	5,038	3,456	3,374	1,431	2,050	—	4,956
Aug. (2)	126	997	3,465	950	2,450	—	2,594
Sept. (2)	6,319	2,804	–4,984	–338	–5,750	—	–1,469

(1) Final figures are given at book values. The portfolio variations differ from those given by the BI-UIC accounts since they do not include sales of securities made to supply collateral for advances granted under the Ministerial Decree of 27 September 1974. — (2) Provisional.

Repurchase agreements

(billions

Temporary purchases (2)

	Amount offered	Amount taken up	Maturity (days)	Yields: Minimum	Yields: Weighted average
1986					
2 Oct.	2,000	2,000	6-8	10,15	10,50
3 "	750	750	3-11	11.05	11.52
7 "	750	750	7	12.05	12.14
8 "	500	500	8-9	10,20	11.55
10 "	750	750	11-20	10.25	10.26
14 "	1,000	1,000	16	11.05	11.05
15 "	4,250	4,250	1-19	9.40	9.85
27 "	1,500	1,500	3-8	9.60	9.78
31 "	2,500	2,500	5-12	10.10	10.18
11 Nov.	1,500	1,500	6-9	11,30	11,46
12 "	750	750	8-19	10.90	11.20
13 "	1,500	1,500	8-22	11.00	11.27
14 "	1,500	1,500	14-28	10-25	10.58
25 "	3,250	3,250	3-28	10.50	10.87
3 Dec.	1,750	1,750	12-19	11.00	11.08
5 "	1,500	1,500	12-17	11.35	11.61
9 "	2,500	2,500	8-14	11.75	11.81
15 "	4,000	4,000	2-16	12.05	12.27
22 "	2,000	2,000	7-11	11,65	11.81
29 "	4,000	4,000	1-9	11.95	12.27
31 "	1,250	1,250	2-8	13.00	13.01
1987					
5 Jan.	1,000	1,000	7	13.50	13.58
14 "	1,250	1,250	6-19	13.25	13.37
15 "	4,000	4,000	15-18	12.00	12.19
23 "	3,750	3,750	5-10	11.85	12.13
26 "	7,000	7,000	4-8	11.50	11.78
30 "	3,000	3,000	17-28	11,90	11,96
2 Feb.	1,500	1,500	18-25	12.35	12.40
4 "	3,750	3,750	5-23	11.00	11.03
13 "	2,000	2,000	3-17	10.75	10.78
20 "	3,500	3,500	3-10	10.75	10.88
25 "	3,500	3,500	2-22	10.70	10.82
27 "	1,250	1,250	17-31	10.90	11.14
19 May	750	750	13	12.05	12.20
25 "	3,500	3,500	2-7	10.50	10.62
29 "	1,000	1,000	17-24	11.50	11.92
5 June	2,000	2,000	13-14	12.15	12.35
8 "	1,500	1,500	3-8	11.55	11.84
25 "	2,000	2,000	6-7	11.80	11.84
23 July	2,250	2,250	7-12	10.55	10.71
27 "	2,000	2,000	3	11.05	11.28
30 "	2,000	2,000	4-5	12.15	12.15
5 Aug.	750	750	6	12.55	12.84
11 "	1,000	1,000	7-13	12,85	12.92
13 "	2,750	2,750	6-18	12.55	13.13
25 "	5,500	5,500	7-17	12.55	12.89
31 "	1,000	1,000	8	12.65	12.80
24 Sept.	1,500	1,500	5-7	12.65	12.87

(1) Purchases at Treasury bill auctions by the syndicate of banks the Bank of Italy is prepared to finance. — (2) Repurchase agreements based on

Table a24

by the Bank of Italy

of lire)

Financing of purchases at Treasury bill auctions (3)

	Maximum amount (1)	Actual amount	Maturity (days)
1986			
15 Sept.	482	281	9
30 "	8,141	3,446	7
15 Oct.	295	194	6
30 "	8,001	4,457	9
14 Nov.	143	78	7
28 "	3,672	2,318	32
15 Dec.	162	128	15
30 "	4,524	2,377	32
1987			
15 Jan.	268	76	15
30 "	4,395	683	28
13 Feb.	810	305	14
27 "	3,696	977	31
30 Mar.	2,431	724	2
15 Apr.	727	639	15
30 "	3,384	1,347	4
15 May	395	289	5
29 "	1,768	807	17
15 June	239	35	7
30 "	3,134	1,264	3
15 July	1,614	847	6
30 "	7,056	2,720	12
14 Aug.	1,394	502	17
31 "	8,325	3,645	10
15 Sept.	892	581	17
30 "	6,647	2,891	6
15 Oct.	2,150	1,162	4

Temporary sales (2)

	Amount offered	Amount taken up	Maturity (days)	Yields	
				Maximum	Weighted average
1986					
18 Sept. ...	1,250	1,160	7	11.00	10.63
1987					
18 Mar. ...	2,500	2,500	7-12	10,70	9,81
20 " ...	750	750	5-11	11.00	10.55
13 Apr. ...	2,000	2,000	14-17	10.20	9.88
14 " ...	1,000	795	10	11.00	10.50
21 " ...	1,500	1.500	6-9	11.00	10.91
13 May ...	500	195	12	11.60	11.19
10 July ...	3,000	3,000	13-20	10.50	10.24
13 " ...	1,000	1,000	10-17	11.50	10.67
7 Oct. ...	5,000	5,000	19-23	11.90	11.48
8 " ...	2,500	2,500	18-22	11.70	11.50
12 " ...	1,000	1,000	11-14	11.20	10.90
13 " ...	2,000	1,780	10-17	12.00	11.70
16 " ...	1,000	1,000	10-14	11.80	11.45

competitive bid auctions. — (3) The rate applied is that of the auction corresponding to the date of transaction.

Table a25

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	Bills allotted at auction: to banks and the private sector: Other	Bills allotted at auction: Subscribed by BI-UIC	Bills allotted at auction: Total
3-month							
1987 — mid-Mar. . . .	—	—	—	—	—	—	—
end-Mar. . . .	3,500	92	4,695	3,500	—	—	3,500
mid-Apr. . . .	—	—	—	—	—	—	—
end-Apr. . . .	3,500	91	5,703	3,498	2	—	3,500
mid-May . . .	1,000	91	735	735	—	—	735
end-May . . .	4,500	94	3,640	3,638	2	860	4,500
mid-June . .	500	92	260	260	—	—	260
end-June . .	3,500	92	5,027	3,500	—	—	3,500
mid-July . . .	1,500	92	7,545	1,500	—	—	1,500
end-July . . .	8,500	92	13,033	8,500	—	—	8,500
mid-Aug. . .	2,000	94	4,348	2,000	—	—	2,000
end-Aug. . .	8,500	91	9,391	8,500	—	—	8,500
mid-Sept. . .	2,500	91	1,869	1,869	—	631	2,500
end-Sept. . .	9,500	91	8,461	8,461	—	1,039	9,500
mid-Oct. . . .	3,750	92	5,309	3,750	—	—	3,750
6-month							
1987 — mid-Mar. . . .	1,500	183	946	946	—	554	1.500
end-Mar. . . .	9,500	184	7,098	7,098	—	2,000	9,098
mid-Apr. . . .	1,500	183	1,661	1,500	—	—	1,500
end-Apr. . . .	9,000	183	7,949	7,949	—	1,051	9,000
mid-May . . .	1,250	185	782	782	—	468	1250
end-May . . .	6,500	185	4,816	4,814	2	1,684	6,500
mid-June . .	750	183	539	539	—	211	750
end-June . .	7,000	183	6,319	6,319	—	200	6,519
mid-July . . .	2,000	184	2,197	2,000	—	—	2,000
end-July . . .	9,500	183	8,408	8,408	—	1,092	9,500
mid-Aug. . .	1,250	185	1,366	1,250	—	—	1,250
end-Aug. . .	7,500	182	7,492	7,492	—	8	7,500
mid-Sept. . .	1,500	182	1,275	1,275	—	225	1,500
end-Sept. . .	8,000	182	6,960	6,960	—	1,040	8,000
mid-Oct. . . .	2,250	183	1,344	1,343	1	800	2,144
12-month							
1987 — mid-Mar. . . .	2,000	365	1,094	—	1,094	906	2,000
end-Mar. . . .	11,500	366	8,584	—	8,584	2,200	10,784
mid-Apr. . . .	1,500	366	912	—	912	588	1,500
end-Apr. . . .	8,000	365	6,715	—	6,715	1,000	7,715
mid-May . . .	750	367	683	—	683	67	750
end-May . . .	5,500	367	4,993	—	4,993	507	5,500
mid-June . .	500	366	547	—	500	—	500
end-June . .	7,500	366	6,443	—	6,443	200	6,643
mid-July . . .	750	366	784	—	750	—	750
end-July . . .	8,500	365	6,790	—	6,790	1,710	8,500
mid-Aug. . .	1,250	368	933	—	933	—	933
end-Aug. . .	6,000	365	6,505	—	6,000	—	6,000
mid-Sept. . .	1,500	366	1,134	—	1,134	366	1,500
end-Sept. . .	7,500	366	6,001	—	6,001	1,499	7,500
mid-Oct. . . .	1,500	365	921	—	921	579	1,500

Treasury bill auctions

(prices and yields)

	PRICES		YIELDS (1)					
			Simple			Compound		
	Floor	Average tender price	Floor-price	At auction: Competitive bid	At auction: Other	Foor-price	At auction: Competitive bid	At auction: Other
			3-month					
1987 — mid-Mar.	—	—	—	—	—	—	—	—
end-Mar.	97.50	97.50	10.17	10.17	9.76	10.57	10.57	10.12
mid-Apr.	—	—	—	—	—	—	—	—
end-Apr.	97.60	97.60	9.86	9.86	9.44	10.23	10.23	9.78
mid-May	97.60	97.60	9.86	9.86	9.44	10.23	10.23	9.78
end-May	97.50	97.50	9.96	9.96	9.55	10.33	10.33	9.89
mid-June	97.55	97.55	9.96	9.96	9.55	10.34	10.34	9.89
end-June	97.55	97.55	9.96	9.96	9.55	10.34	10.34	9.89
mid-July	97.30	97.40	11.01	10.59	10.17	11.47	11.02	10.57
end-July	97.30	97.35	11.01	10.80	10.38	11.47	11.24	10.79
mid-Aug.	97.25	97.30	10.98	10.77	10.37	11.44	11.21	10.77
end-Aug.	97.35	97.40	10.92	10.71	10.28	11.37	11.14	10.69
mid-Sept. ...	97.20	97.20	11.55	11.55	11.13	12.07	12.07	11.60
end-Sept. ...	97.20	97.20	11.55	11.55	11.13	12.07	12.07	11.60
mid-Oct.	97.17	97.20	11.55	11.43	11.22	12.06	11.93	11.70
			6-month					
1987 — mid-Mar.	95.35	95.35	9.73	9.73	9.51	9.96	9.96	9.73
end-Mar.	95.35	95.35	9.67	9.67	9.46	9.91	9.91	9.68
mid-Apr.	95.40	95.40	9.62	9.62	9.40	9.85	9.85	9.62
end-Apr.	95.40	95.40	9.62	9.62	9.40	9.85	9.85	9.62
mid-May	95.35	95.35	9.62	9.62	9.40	9.85	9.85	9.62
end-May	95.35	95.35	9.62	9.62	9.40	9.85	9.85	9.62
mid-June	95.40	95.40	9.62	9.62	9.40	9.85	9.85	9.62
end-June	95.40	95.40	9.62	9.62	9.40	9.85	9.85	9.62
mid-July	94.95	94.95	10.55	10.55	10.33	10.83	10.83	10.60
end-July	95.00	95.00	10.50	10.50	10.28	10.77	10.77	10.54
mid-Aug.	94.95	94.95	10.49	10.49	10.27	10.76	10.76	10.54
end-Aug.	94.95	94.95	10.67	10.67	10.44	10.95	10.95	10.72
mid-Sept. ...	94.60	94.60	11.45	11.45	11.22	11.78	11.78	11.54
end-Sept. ...	94.60	94.60	11.45	11.45	11.22	11.78	11.78	11.54
mid-Oct.	94.57	94.57	11.45	11.45	11.34	11.78	11.78	11.66
			12-month					
1987 — mid.-Mar.	91.15	91.15	9.71	—	9.71	9.71	—	9.71
end-Mar.	91.15	91.15	9.68	—	9.68	9.68	—	9.68
mid-Apr.	91.15	91.15	9.68	—	9.68	9.68	—	9.68
end-Apr.	91.20	91.20	9.65	—	9.65	9.65	—	9.65
mid-May	91.15	91.15	9.66	—	9.66	9.66	—	9.66
end-May	91.15	91.15	9.66	—	9.66	9.66	—	9.66
mid-June	91.15	91.20	9.68	—	9.62	9.68	—	9.62
end-June	91.15	91.15	9.68	—	9.68	9.68	—	9.68
mid-July	90.40	90.40	10.59	—	10.59	10.59	—	10.59
end-July	90.45	90.45	10.56	—	10.56	10.56	—	10.56
mid-Aug.	90.35	90.35	10.59	—	10.59	10.59	—	10.59
end-Aug.	90.10	90.40	10.99	—	10.62	10.99	—	10.62
mid-Sept. ...	89.70	89.70	11.45	—	11.45	11.45	—	11.45
end-Sept. ...	89.70	89.70	11.45	—	11.45	11.45	—	11.45
mid-Oct.	89.70	89.70	11.48	—	11.48	11.48	—	11.48

(1) Calendar year. From September 1986 interest payments were subject to a flat-rate withholding tax at the rate of 6.25 per cent, raised to 12.50 per cent in September 1987.

Interest rates

	Rates on BI-UIC loans: Base	Rates on BI-UIC loans: Actual on fixed-term advances (1)	Yields: Treasury bill 3-month (2)	Yields: Treasury bill 6-month (2)	Yields: Treasury bill 12-month (2)	Yields: Treasury bill average (2) (3)	Yields: Treasury bonds	Yields: Bonds of industrial credit institutions
1982 — Dec.	18.00	21.00	19.51	19.11	18.55	19.17	19.62	19.86
1983 — Dec.	17.00	19.81	17.54	16.95	17.48	17.29	17.69	17.33
1984 — Dec.	16.50	17.48	14.82	14.69	14.68	14.70	14.53	13.84
1985 — Dec.	15.00	16.17	13.23	13.10	13.14	13.14	13.67	13.27
1986 — Sept.	12.00	12.00	10.92	10.61	10.28	10.54	10.43	9.54
Oct.	12.00	12.29	10.79	10.38	10.08	10.35	10.26	9.12
Nov.	12.00	12.14	10.69	10.25	10.02	10.27	10.33	9.20
Dec.	12.00	13.03	10.81	10.25	10.01	10.25	10.05	9.05
1987 — Jan.	12.00	13.20	10.81	10.19	9.93	10.14	9.78	8.97
Feb.	12.00	13.00	10.69	9.98	9.74	9.93	9.84	9.02
Mar.	11.50	12.50	10.57	9.92	9.68	9.92	10.03	9.13
Apr.	11.50	11.50	10.23	9.85	9.65	9.84	10.07	9.28
May	11.50	12.30	10.31	9.85	9.66	9.91	10.20	9.68
June	11.50	12.79	10.34	9.85	9.68	9.89	10.41	9.92
July	11.50	12.45	11.21	10.78	10.56	10.87	10.90	10.34
Aug.	12.00	13.18	11.15	10.92	10.62	10.93	11.30	10.71
Sept.	12.00	13.53	12.07	11.78	11.45	11.80	11.30	11.02

	Bank rates (4): Lending in lire: ABI prime rate (5)	Bank rates (4): Lending in lire: Minimum	Bank rates (4): Lending in lire: Average	Bank rates (4): Deposit rates: Maximum	Bank rates (4): Deposit rates: Average	Bank rates (4): Certificates of deposit: 6 month	Bank rates (4): Certificates of deposit: 12 month	Interbank rates
1982 — Dec.	20.75	20.85	—	18.60	—	—	—	19.05
1983 — Dec.	18.75	18.80	—	17.17	—	—	—	18.04
1984 — Dec.	18.00	17.68	—	15.96	—	—	—	17.31
1985 — Dec.	15.88	15.29	16.86	13.43	10.11	13.21	13.61	14.93
1986 — Sept.	13.00	13.15	14.92	11.16	8.13	11.33	10.99	11.68
Oct.	"	12.89	14.49	11.03	7.90	10.92	10.75	11.32
Nov.	"	12.70	14.23	10.85	7.79	10.73	10.39	11.27
Dec.	"	12.55	13.93	10.69	7.62	10.69	10.34	11.51
1987 — Jan.	"	12.47	13.83	10.65	7.66	10.53	10.18	12.07
Feb.	12.88	12.29	13.78	10.43	7.49	10.08	9.88	12.19
Mar.	12.50	12.15	13.64	10.24	7.34	9.88	9.69	11.71
Apr.	"	11.82	13.40	10.00	7.09	9.75	9.60	10.86
May	"	11.63	13.20	9.81	6.93	9.57	9.45	10.49
June	"	11.53	13.00	9.66	6.75	9.49	9.23	11.03
July	"	11.60	13.17	"	6.73	9.44	9.28	10.95
Aug.	"	11.74	13.26	"	"	9.49	9.60	11.52
Sept. (6)	13.00	12.23	13.69	"	6.77	9.84	10.06	12.12

(1) Average rate weighted according to the premiums charged. — (2) Calculated with reference only to issues sold at end-of-month auctions. Annual rates, calendar year, compound interest formula. From September 1986 interest payments were subject to a flat-rate withholding tax at the rate of 6.25 per cent, raised to 12.50 per cent in September 1987. — (3) Weighted average of auction rates. — (4) With the exception of the ABI prime rate, bank rates are based on ten-day returns and calculated as a centred monthly average. For the definition of bank interest rates, see *Supplemento al Bollettino sulle aziende di credito*. — (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. — (6) Provisional data.

Principal assets and liabilities of banks

(billions of lire)

	ASSETS								
	Bank reserves (1)	Credits: Loans: in lire (2)	Credits: Loans: in foreign currency	Credits: Treasury bills (3) (10)	Credits: Other securities (4) (10)	Shares and equity participations	Bad debts (5)	Interbank accounts: Total	Interbank accounts: of which: special credit institutions
1983 — Dec.	58,007	157,226	21,574	47,972	132,118	6,602	11,566	97,164	7,662
1984 — Dec.	67,807	185,066	30,531	42,292	144,745	8,600	14,570	102,789	8,278
1985 — Dec.	82,718	220,053	24,171	25,646	173,610	9,422	17,800	106,014	9,141
1986 — Aug.	82,538	217,113	27,575	22,129	165,663	10,476	20,274	73,652	6,884
Sept.	82,829	218,089	27,143	25,573	172,082	10,591	20,676	77,112	6,966
Oct.	84,194	226,126	27,793	23,531	172,653	11,146	21,002	81,223	7,716
Nov.	88,044	230,147	27,550	27,496	174,834	11,275	21,162	94,755	8,898
Dec.	88,474	238,588	27,451	29,827	181,332	11,717	20,963	116,636	8,879
1987 — Jan.	97,430	242,865	27,238	21,820	165,071	11,951	21,512	85,117	8,161
Feb.	95,018	240,290	29,622	19,324	166,704	12,243	21,913	78,591	8,366
Mar.	94,304	235,755	30,395	19,785	174,045	12,104	22,335	82,364	8,335
Apr.	95,036	240,314	29,962	22,444	181,829	12,056	22,604	83,408	8,324
May	94,680	243,139	30,406	22,340	180,614	12,025	22,809	87,138	8,126
June	94,180	245,497	30,020	19,865	181,045	12,158	22,961	86,310	8,069
July	94,821	252,299	29,634	17,969	179,176	13,368	23,361	81,193	7,603
Aug. (11)	94,900	249,340	27,370	13,850	182,200	....	....	....	....

	LIABILITIES								
	Deposits (6): Total	Deposits (6): of which: current accounts	Other domestic funds (7)	Loans from BI-UIC	Interbank accounts: Total	Interbank accounts: of which: special credit institutions	Equity capital	Net foreign position (8)	Bankers' acceptances issued (9)
1983 — Dec.	372,240	202,690	3,568	6,349	88,572	5,252	29,506	20,398	1,590
1984 — Dec.	415,581	227,668	4,949	2,864	93,751	4,512	36,895	27,716	609
1985 — Dec.	457,743	250,282	6,467	8,740	94,338	4,459	43,166	25,806	377
1986 — Aug.	440,751	240,449	6,031	2,977	66,300	4,813	51,008	31,243	564
Sept.	449,658	247,839	6,394	3,526	71,439	4,863	51,202	31,810	465
Oct.	455,895	251,978	5,934	3,352	75,686	4,381	51,321	32,162	415
Nov.	458,623	252,876	5,956	2,924	86,934	4,530	51,560	34,012	390
Dec.	498,685	281,612	4,815	4,407	103,313	5,338	51,585	32,108	307
1987 — Jan.	488,522	268,040	5,458	3,177	78,920	5,778	51,642	31,710	299
Feb.	481,045	262,054	5,098	3,081	73,270	4,973	52,007	33,391	301
Mar.	484,013	265,069	4,827	3,170	78,444	5,269	55,418	35,017	292
Apr.	489,005	269,614	4,681	3,101	77,152	5,021	59,967	33,952	281
May	486,926	267,702	4,392	3,417	81,200	4,943	60,859	35,178	274
June	492,362	273,255	3,698	3,573	84,996	5,399	61,264	37,383	258
July	490,524	272,677	3,946	4,827	79,398	6,160	61,269	....	232
Aug. (11)	488,970	270,700	....	4,000	....	....	....	....	....

(1) Comprises lira liquidity (excluding deposits with the PO and the Deposits and Loans Fund), compulsory reserves, collateral in respect of bankers' drafts, and the non-interest-bearing deposit against ceiling overshoots. The data for December 1985 have been reworked to correct for suspended accounting entries due to strikes by Bank of Italy personnel. — (2) Includes investment in bankers' acceptances. — (3) At face value. — (4) Italian and foreign lira securities for trading, investment and repurchase agreements at balance sheet value (shares are excluded). — (5) Includes protested bills. — (6) Lira deposits by non-bank resident customers. — (7) Government funds under administration and residents' foreign-exchange accounts. — (8) Source, UIC. — (9) Bankers' acceptances issued are included among guarantee commitments. Only those acquired by banks represent actual disbursement of funds by the banking system. — (10) Securities subject to repurchase agreements are included in the case of temporary purchases and excluded in that of temporary sales. — (11) Provisional.

Table a28

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	Total		Domestic (1)	of which: industrial	of which: real estate	Foreign	On behalf of the Treasury	
1983 — Dec.	4,389	5,196	11,409	109,933	59,044	29,687	4,693	9,684	−1,991
1984 — Dec.	4,257	4,964	15,023	125,300	66,144	32,927	4,585	9,193	−7,941
1985 — Dec.	3,575	4,601	16,441	135,988	72,323	36,096	3,781	8,593	−8,238
1986 — Sept. . . .	4,656	5,478	16,408	144,725	77,400	39,400	2,982	7,613	−12,038
Oct.	3,408	4,200	15,516	147,062	78,945	39,973	3,129	7,721	−11,449
Nov.	3,742	4,464	15,205	148,823	79,978	40,442	3,087	7,683	−11,031
Dec.	3,826	4,567	14,511	152,813	82,890	40,823	3,187	8,057	−10,298
1987 — Jan.	4,928	5,761	15,890	152,702	82,720	41,060	2,986	7,494	−12,578
Feb.	4,325	5,256	15,883	154,239	83,522	41,547	3,012	7,493	−13,073
Mar.	4,594	5,558	15,041	156,440	84,716	42,344	3,937	7,493	−14,341
Apr.	4,421	5,352	13,599	157,452	85,141	42,880	4,194	7,493	−12,218
May	4,359	5,154	13,643	158,106	85,036	43,407	4,270	7,472	−11,596
June	4,608	5,420	12,974	158,758	85,636	43,876	4,309	7,020	−9,135
July (3) . .	5,985	6,908	12,566	160,849	86,821	44,545	4,302	7,020	−12,186
Aug. (3) .	5,917	6,820	12,916	161,059	86,470	44,957	4,257	7,019	−12,022

	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				
1983 — Dec.	19,264	85,134	36,147	32,075	9,119	4,314	4,696	2,436	13,961
1984 — Dec.	23,480	89,554	35,871	33,605	8,159	4,912	4,767	2,422	17,830
1985 — Dec.	25,549	95,022	37,736	36,192	7,145	5,513	5,365	2,521	20,051
1986 — Sept. . . .	27,860	97,893	39,006	38,107	6,091	3,120	6,424	2,507	21,273
Oct.	28,937	97,131	38,961	37,706	6,090	3,917	6,220	2,517	21,367
Nov.	29,280	98,130	39,321	38,325	6,090	4,605	6,427	2,527	21,172
Dec.	28,258	102,193	41,234	39,693	6,089	5,359	6,522	2,538	21,878
1987 — Jan.	28,417	102,243	41,526	39,496	5,490	5,080	6,557	2,484	21,984
Feb.	28,753	102,402	41,616	39,581	5,457	4,706	6,586	2,569	22,337
Mar.	28,470	103,659	42,313	40,171	5,457	4,329	6,680	2,566	22,967
Apr.	28,224	104,673	42,882	40,869	5,450	4,323	6,688	2,576	23,938
May	27,966	106,066	43,511	41,469	5,448	4,078	6,816	2,605	24,070
June	28,416	107,521	44,025	42,219	5,445	4,347	6,715	2,649	24,253
July (3) . .	28,189	108,194	44,168	42,505	5,048	3,762	6,753	2,679	24,834
Aug. (3) .	28,028	109,152	44,479	43,097	5,048	3,363	6,886	2,761	24,811

(1) Exluding financing of compulsory stockpiling. — (2) Gross of exchange rate variations. — (3) Partially estimated data.

Table a29

Loans by branch of economic activity and type of enterprise

(billions of lire; % changes)

	BANKS				SPECIAL CREDIT INSTITUTIONS			
	Total as of July 1987	% change in the 12 months ending			Total as of July 1987	% change in the 12 months ending		
		Dec. 86	Mar. 87	July 87		Dec. 86	Mar. 87	July 87
General government	8,381	−8.3	3.6	1.5	23,254	1.4	2.7	5.2
Credit and insurance institutions	17,117	30.7	57.0	40.8	9,399	57.5	44.0	52.1
Non-financial firms	223,427	7.8	13.1	10.9	111,688	11.9	9.3	11.0
Agriculture, forestry and fisheries	9,026	12.6	14.1	11.0	7,912	19.7	16.6	14.1
Industry	134,344	3.6	7.4	6.4	62,716	7.8	6.6	6.8
Mining and quarrying	2,153	0.0	47.1	32.4	1.123	−0.2	7.1	1.4
Food and related products	13,126	6.0	5.5	10.4	5,943	14.4	11.5	10.6
Textiles	10,447	−3,3	−2,2	8.5	2,370	7.3	3.7	−0.6
Clothing, footwear, hides & leather	9,608	9.7	13.4	11.7	1,180	11.3	11.5	15.1
Wood, wooden furniture & fittings	5,821	5.5	7.7	7.5	1,263	14.7	15.3	11.0
Basic metals	7,112	0.6	2.5	3.2	3,432	4.2	3.9	13.0
Engineering	28,525	7.7	8.7	2.9	13,112	10.4	8.3	6.9
Vehicles	6,138	1.0	15.3	−4.4	3,529	−12.5	−8.0	−9.1
Non-ferrous mineral products	4,923	−5.1	−5.2	−1.0	2,454	9.1	10.5	4.6
Chemicals, oil & coal products	10,357	−8.2	−6.1	2.5	4,502	3.4	−0.9	4.9
Rubber and plastics	3,659	1.6	2.8	5.9	1,220	3.7	5.5	6.8
Paper, printing, publishing and related products	4,676	−3.3	5.2	10.3	1,559	3.0	8.9	−2.6
Still and motion picture equipment, sundry manufactures	999	10.9	16.6	10.8	345	17.4	20.6	15.0
Construction and plant installation	24,778	11.8	16.2	10.0	17,704	10.5	9.7	10.3
Production and distribution of power, gas and water	2,022	−17.1	0.2	10.0	2,980	14.1	1.2	6.7
Distributive trades, other commercial activities and miscellaneous services	61.260	16.8	20.9	16.9	19,357	20.4	18.3	27.5
Lodging and catering	2,886	19.6	23.4	18.3	2,257	19.5	18.2	21.5
Transport and communications	7,177	9.2	6.5	16.9	14,172	−1.1	−5.6	−2.9
Coordination and financial services to enterprises	8,734	9.4	81.2	42.6	5.274	117.1	65.6	58.0
Non-profit institutions, households and unclassifiable	12.316	32.3	29.5	20.9	62,716	7,8	6.6	6.8
TOTAL (RESIDENT CUSTOMERS)	261,241	9.5	15.5	12.6	148,398	12.2	10.4	12.7
of which: public enterprises	*22,470*	*−7.9*	*21.4*	*13.3*	*26.328*	*5.1*	*−3.5*	*1.4*
of which: state controlled	*18,090*	*−6.8*	*26.3*	*10.6*	*21,378*	*8.1*	*−1.0*	*4.5*
leading private sector firms (1)	*44,206*	*3.3*	*7.6*	*−0.3*	*31,584*	*16.0*	*12.1*	*13.8*
other (1)	*173,868*	*14.8*	*17.1*	*16.3*	*63.175*	*16.2*	*17.2*	*17.4*

Source: Bank of Italy, Central Risks Office.
(1) From June 1986 on, the data on leading and other private firms are not comparable with those up to that date because of a change in the sample.

Table a30

Net issues of securities

(billions of lire)

	ISSUERS			Total bonds and government securities	INVESTORS					Shares
	Public sector	Special credit institutions	Public agencies and firms		BI-UIC	Deposits and Loans Fund	Banks	Investment funds	Other	
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	912	50,905	9,774
1985	94,074	5,178	2,195	101,447	8,910	510	27,336	11,656	53,035	12,220
1986	87,762	6,805	6,071	100,638	7,911	830	6,209	27,345	58,343	18,872
1985 — 3rd qtr. . . .	20,556	1,146	166	21,868	−593	280	6,166	2,593	13,422	1,520
4th " . . .	25,951	1,363	658	27,972	4,411	−47	10,610	4,311	8,687	5,926
1986 — 1st qtr. . . .	18,012	627	4,136	22,775	5,961	431	−9,922	10,035	16,270	2,313
2nd " . . .	31,777	2,061	−910	32,928	2,846	337	1,940	10,477	17,328	4,733
3rd " . . .	15,702	−92	977	16,587	−7,380	−38	5,943	4,598	13,464	5,026
4th " . . .	22,271	4,209	1,868	28,348	6,484	100	8,248	2,235	11,281	6,800
1987 — 1st qtr. . . .	22,994	1,385	1,278	25,657	−3,881	61	−7,609	2,249	34,837	2,452
2nd " (1) . .	21,824	3,799	195	25,818	4,950	566	6,915	−68	13,455	2,928
1986 — Aug.	6,429	−40	−8	6,381	−1,410	−10	1,572	1,913	4,316	1,924
Sept.	8,675	652	−408	8,919	−1,653	8	6,413	1,086	3,065	1,774
Oct.	9,775	−783	265	9,257	2,609	2	438	1,503	4,705	1,986
Nov.	8,864	992	676	10,532	1,857	−6	1,922	700	6,059	1,775
Dec.	3,632	4,000	927	8,559	2,018	104	5,888	32	517	3,039
1987 — Jan.	1,883	18	2	1,903	5,695	−23	−16,463	788	11,906	684
Feb.	12,585	121	317	13,023	−4,948	−20	1,805	1,025	15,161	293
Mar.	8,526	1,246	959	10,731	−4,628	104	7,049	436	7,770	1,475
Apr.	12,819	988	102	13,909	966	149	7,323	996	4,475	913
May	8,793	1,370	−153	10,010	4,620	−20	−713	3	6,120	467
June (1) . .	212	1,441	246	1,899	−636	437	305	−1,067	2,860	1,548
July (1) . . .	5,582	649	600	6,831	2,227	−24	−1,847	−841	7,316	840
Aug. (1) . . .	2,574	878	69	3,521	3,136	−6		−2,167		383

(1) Provisional data.

Issue conditions of goverment securities

ABI number	Treasury credit certificates						
	Maturity	Date of issue	Price at issue	Yield at issue (1)	Amount take up (lire bn.)	Spread	First coupon
12876 (2)	1.1.97	1.1.87	99.00	10.25	5,000	0.75	10.80
12877 (2)	1.2.97	1.2.87	99.00	10.17	5,000	0.75	10.80
12878 (2)	18.2.97	18.2.87	99.00	10.14	6,000	0.75	10.55
12879 (2)	1.3.97	1.3.87	99.00	9.93	5,000	0.75	10.35
12882 (2)	1.4.97	1.4.87	99.00	9.93	11,500	0.75	10.35
12885 (2)	1.5.97	1.5.87	99.00	9.89	8,000	0.75	10.35
12889 (2)	1.6.97	1.6.87	99.00	9.89	1,430	0.75	10.35
12892 (2)	1.7.97	1.7.87	99.00	9.99	3,000	0.75	10.80
12894 (3)	20.7.92	20.7.87	99.00	9.93	2,500	0.30	5.30
12895 (2)	1.8.97	1.8.87	99.00	10.74	1,450	0.75	11.20
12897 (3)	19.8.92	19.8.87	99.00	10.67	250	0.30	5.30
12898 (2)	1.9.97	1.9.87	99.00	10.80	2,500	0.75	12.00

ABI number	Treasury bonds					
	Maturity	Date of issue	Price of issue	Yield at issue (4)	Amount take up (lire bn.)	Coupon
12610	1.1.90	1.1.87	98.75	9.34	2,660	4.625
12611	1.1.92	1.1.87	98.75	9.17	1,940	4.625
12612	1.2.90	1.2.87	98.75	9.34	2,050	4.625
12613	1.2.92	1.2.87	98.75	9.17	950	4.625
12614	1.3.90	1.3.87	98.75	9.24	1,000	4.575
12615	1.3.92	1.3.87	98.75	9.07	1,000	4.575
12616	1.4.90	1.4.87	98.75	9.22	2,200	4.575
12617	1.4.92	1.4.87	98.75	9.07	800	4.575
12618	1.5.90	1.5.87	98.75	9.25	950	4.575
12619	1.5.92	1.5.87	98.75	9.07	1,000	4.575
12620	1.6.90	1.6.87	98.75	9.23	405	4.575
12621	1.6.92	1.6.87	98.75	9.07	85	4.575
12622	1.7.90	1.7.87	99.75	10.16	1,150	5.25
12623	1.7.92	1.7.87	99.75	10.13	300	5.25
12624	1.8.90	1.8.87	99.00	10.49	900	5.25
12625	1.9.90	1.9.87	99.00	10.44	800	5.625

ABI number	Treasury certificates in ECUs						
	Maturity	Date of issue	Price of issue	Yield at issue (4)	Amount taken up (ECU mill.) (5)	LIRA/ECU exchange rate at issue	Coupon
12881	25.3.94	25.3.87	100	7.26	800	1,477.72	7.75
13000	21.9.91	21.9.87	100	7.64	700	1,498.87	8.75

(1) Expected yield in the months the first coupon matures on the assumption that rates are unchanged over the period. — (2) Annual coupon determined on the basis of 12-month Treasury bill rate. — (3) Half-yearly coupon based on the 12-month Treasury bill rate. — (4) Net of withholding tax. — (5) Domestic market only.

Table a32

Treasury credit certificates, Treasury certificates in ECUs, index-linked Treasury certificates, Treasury bonds and investment funds

	Expected yields (1)			Total return indices (2)							
					Treasury certificates in ECUs (3)						
	Treasury credit certificates	Treasury certificates in ECUs	Index-linked Treasury certificates	Treasury credit certificates	Interest	Price	Exchange rate	Total	Index-linked Treasury certificates	Treasury bonds	Investment funds
1981	20.25			107.71							
1982	20.78			130.51							
1983	19.82	13.11		159.09	105.81	101.93	102.08	110.21		100.00	
1984	16.98	11.51	3.40	191.33	118.89	106.57	104.59	132.51	97.63	109.39	104.01
1985	14.68	9.88	4.61	226.18	132.42	111.76	109.64	162.52	101.12	126.89	130.99
1986	12.41	8.54	4.49	259.08	144.98	115.52	110.84	185.60	117.76	146.91	178.15
1986 - 1st qtr. .	14.44	8.56	5.02	245.31	141.12	116.18	111.90	183.45	108.38	137.60	159.16
2nd " .	13.11	8.41	5.04	254.63	144.71	116.43	111.86	188.46	112.37	144.96	181.39
3rd " .	11.47	8.61	3.96	264.65	146.14	114.92	110.25	185.17	123.22	150.03	185.68
4th " .	10.63	8.59	3.95	271.73	147.96	114.56	109.34	185.33	127.09	155.07	186.39
1987 - 1st qtr. .	10.22	8.45	4.36	280.27	155.72	114.11	111.32	197.70	128.21	159.56	187.99
2nd " .	9.89	8.15	4.62	288.33	159.36	114.92	113.24	207.38	130.39	162.30	192.55
3rd " .	10.92	8.29	4.41	290.82	163.12	113.71	113.80	211.07	135.04	163.56	187.75
1986 - Aug. ...	11.58	8.72	3.88	264.85	148.41	114.51	109.96	186.86	123.67	149.88	187.82
Sept. ...	11.10	8.52	3.80	267.60	149.54	115.11	109.76	188.93	125.60	151.94	188.83
Oct.	10.79	8.35	3.72	269.57	150.76	115.44	109.26	190.15	127.54	153.72	187.79
Nov. ...	10.60	8.55	3.99	271.59	152.02	114.33	109.39	190.11	126.79	154.79	186.71
Dec. ...	10.51	8.56	4.15	274.04	153.26	113.93	109.37	190.97	126.95	156.70	184.68
1987 - Jan.	10.39	8.53	4.09	277.59	154.56	113.92	110.87	195.20	128.86	158.64	188.37
Feb.	10.24	8.42	4.43	280.31	155.66	114.27	111.23	197.85	127.65	159.67	187.06
Mar.	10.04	8.40	4.55	282.91	156.93	114.15	111.87	200.04	128.13	160.38	188.53
Apr.	9.89	8.22	4.65	286.06	158.14	114.83	112.30	203.93	128.92	161.54	193.33
May	9.87	8.13	4.64	288.58	159.37	115.06	113.63	208.35	130.42	162.41	192.52
June ...	9.91	8.11	4.57	290.36	160.56	114.87	113.80	209.87	131.82	162.94	191.79
July	10.25	8.08	4.36	290.65	161.84	114.74	113.90	211.49	134.05	162.95	190.83
Aug. ...	11.18	8.27	4.58	290.24	163.11	113.79	113.84	211.29	133.79	163.12	186.85
Sept. ...	11.33	8.52	4.29	291.58	164.42	112.60	113.66	210.42	137.28	164.61	185.57

(1) The expected yield on Treasury credit certificates assumes no change in interest rates. That on Treasury credit certificates in ECUs is not comparable with the expected yields on lira investments. The expected yield on index-linked certificates is the real yield to maturity, calculated measuring inflation by the deflator of GDP at factor cost; the yield so obtained makes the sum of the present values of the real payments foreseen equal the security's deflated cum-coupon price. — (2) These indices are based as follows: Treasury credit certificates, 31 December 1980; Treasury certificates in ECUs, 26 January 1983; index-linked Treasury certificates, 2 May 1984; Treasury bonds, 30 December 1983; and investment funds, 2 July 1984. — (3) The breakdown of the index into its interest, price, and exchange rate components is multiplicative.

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
1981	73,336	28,098	45,238	—	18.1	—	13.5
1982	100,640	31,604	69,036	—	20.9	—	13.4
1983	120,626	35,432	85,194	—	20.7	—	13.2
1984	143,725	52,325	91,400	—	20.4	—	17.1
1985	153,924	46,441	107,483	—	18.1	—	12.9
1986	151,992	45,650	106,342	—	15.1	—	11.4
1985 — July	16,691	7,944	8,747	3.6	18.8	2.2	11.6
Aug.	3,765	−2,810	6,575	3.2	18.3	1.7	11.0
Sept.	15,103	1,084	14,019	4.2	18.3	2.5	9.9
Oct.	11,979	7,605	4,374	3.8	17.6	2.7	10.3
Nov.	19,400	5,487	13,913	4,7	17,9	3.0	10.5
Dec.	24,120	16,972	7,148	4.3	18,1	4.2	12.9
1986 — Jan.	−2,622	−2,913	291	3.5	16.6	3.2	11.2
Feb.	11,826	−909	12,735	3.0	16.7	2.4	11.0
Mar.	14,524	2,224	12,300	3.0	16.4	1.2	11.1
Apr.	20,318	6,608	13,710	4.9	16.9	2.6	11.4
May	10,752	1,304	9,448	4.8	16.7	3.4	11.1
June	−5,973	−1,627	−4,346	2.8	15.3	2.6	11.1
July	26,502	12,744	13,758	2.8	16.1	2.7	12.1
Aug.	3,863	−3,813	7,676	2.4	16.0	2.2	12.0
Sept.	16,180	2,133	14,047	4.6	15.9	3.3	12.2
Oct.	17,728	10,758	6,970	4.0	16.3	3.5	12.9
Nov.	20,883	6,352	14,531	4.8	16.1	4.1	13.0
Dec.	18,011	12,789	5,222	3.8	15.1	3.6	11.4
1987 (5) — Jan.	4,490	3,880	610	3.2	15.9	3.5	13.2
Feb.	12,395	1,726	10,669	2.8	15.7	3.5	13.9
Mar.	11,930	−763	12,693	3.2	15.3	2.8	13.1
Apr.	20,337	5,154	15,183	4.1	15.0	2.1	12.5
May	13,089	3,629	9,460	4.2	15.0	2.6	13.0
June	−2,381	1,739	−4,120	3.1	15.5	3.5	13.9
July	22,898	9,061	13,837	2.7	14.8	3.0	12.6
Aug.	4,556	−4,813	9,369	2.3	14.8	1.9	12.5

(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 domestic 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. — (5) Provisional data. The state sector borrowing requirement, in 1985, excludes debt funding operations in securities for 10,035 billion lire, of which 4,841 billion for tax credits; the remaining 5,194 billion of securities issued to fund debts is included in the financing of the non-state sector.

Table a34

Monetary aggregates and their counterparts

(changes in billions of lire)

	1984	1985	1986 Year	1986 Jan-June	1987 April	1987 May	1987 June	1987 Jan-June
A) BI-UIC								
ASSETS								
Foreign sector *(a1)*	5,195	−13,651	3,489	5,203	696	−1,854	−1,715	2,384
State sector *(a2)* (1)	13,529	27,482	10,891	556	265	3,417	−1,312	4,363
Banks *(a3)*	−3,550	5,675	−3,360	−133	−101	1,536	18	−1,017
Special credit institutions *(a4)*	433	−273	458	392	−61	3	65	−12
Other *(a5)*	−2,129	−402	−910	−4,132	−89	−953	2,788	−1,108
LIABILITIES								
Non-state sector *(a6)*	3,561	3,967	3,036	−1,140	388	929	578	−1,025
Banks *(a7)*	9,917	14,864	7,532	3,026	322	1,220	−734	5,635
B) Banks								
ASSETS								
BI-UIC *(b1=a7)*	9,917	14,864	7,532	3,026	322	1,220	−734	5,635
Foreign sector *(b2)*	−5,138	5,299	−6,454	−7,393	883	−1,011	−788	−4,185
State sector *(b3)* (1)	4,778	11,624	7,575	−16,444	10,360	−861	−2,122	−7,834
Non-state-sector *(b4)*	38,162	30,126	28,170	−1,774	4,271	2,524	1,842	10,501
Special credit institutions *(b5)*	2,123	1,123	6	−2,487	270	974	−1,240	−596
Other *(b6)*	−9,535	−15,398	345	7,203	−11,605	−2,849	7,489	−8,153
LIABILITIES								
Non-state sector:								
current accounts *(b7)*	26,205	22,296	29,811	−10,232	3,415	−1,638	5,424	−8,583
savings deposits *(b8)*	14,064	13,777	1,474	−13,465	−352	−741	−136	−7,252
repurchase agreements *(b9)*	132	3	199	1,672	496	578	−1,117	2,573
Bank CDs *(b10)*	4,276	5,753	8,129	3,838	799	574	16	9,280
BI-UIC *(b11=a3)*	−3,550	5,675	−3,360	−133	−101	1,536	18	−1,017
State sector *(b12)*	−820	134	921	451	244	−312	242	367

(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)

	1984	1985	1986		1987			
			Year	Jan-June	April	May	June	Jan-June
C) State sector								
DOMESTIC BORROWING REQUIREMENT *(c1)*	93,117	115,050	109,336	45,985	15,457	9,520	−3,668	45,721
LIABILITIES TOWARDS:								
Non-state sector								
PO savings:								
current accounts *(c2)*	657	2,221	−478	−639	−555	139	−118	−1,288
savings deposits *(c3)*	5,664	7,990	10,582	2,358	408	440	397	3,385
Treasury bills and other government securities *(c4)*	63,938	60,126	57,757	44,070	5,249	6,079	1,193	47,303
BI-UIC *(c5=a2)*	13,529	27,482	10,891	556	265	3,417	−1,312	4,363
Banks *(c6=b3-b12)*	5,598	11,490	6,654	−16,895	10,116	−549	−2,364	−8,201
Other *(c7)*	3,731	5,741	23,930	16,535	−26	−6	1,464	159
D) Monetary aggregates and their counterparts *(consolidated account of liquidity-creating bodies)*								
MONETARY AGGREGATES								
M1 *(d1=a6+b7+c2)*	30,423	28,484	32,368	−12,010	3,248	−569	5,883	−10,896
Savings deposits *(d2=b8+c3)*	19,728	21,767	12,056	−11,107	55	−301	261	−3,867
Repurchase agreements *(d3=b9)*	132	3	199	1,672	496	578	−1,117	2,573
M2A *(d4=d1+d2+d3)*	50,283	50,254	44,623	−21,445	3,799	−292	5,027	−12,190
Banks' CDs *(d5=b10)*	4,276	5,753	8,129	3,838	799	574	16	9,280
M2 *(d6=d4+d5)*	54,559	56,007	52,752	−17,607	4,598	282	5,043	−2,910
SOURCES								
Foreign sector *(d7=a1+b2)*	57	−8,352	−2,965	−2,190	1,579	−2,865	−2,503	−1,801
State sector *(d8=c1−c4−c7)*	25,448	49,183	27,649	−14,620	10,234	3,447	−3,397	−1,741
Non-state sector *(d9=b4)*	38,162	30,126	28,170	−1,774	4,271	2,524	1,842	10,501
Special credit institutions *(d10=a4+b5)*	2,556	850	464	−2,095	209	977	−1,176	−608
Other *(d11=a5+b6)*	−11,664	−15,800	−565	3,071	−11,694	−3,802	10,277	−9,261

Table a35

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	M3
1981 — Dec.	185,657	340,737	340,737	402,943	10.2	10.0	10.0	16.2
1982 — Dec.	216,640	402,227	402,227	475,245	16.7	18.0	18.0	17.9
1983 — Dec.	244,629	448,399	451,656	539,984	12.9	11.5	12.3	13.6
1984 — Dec.	275,052	498,683	506,216	615,857	12.4	11.2	12.1	14.1
1985 — July	270,182	496,647	509,488	639,749	14.2	13.3	14.6	15.6
Aug.	267,912	496,487	509,255	641,000	14.7	13.5	14.7	15.7
Sept.	272,139	501,235	514,296	647,639	14.3	12.8	14.0	15.2
Oct.	273,161	502,889	516,124	647,552	13.2	12.2	13.4	13.7
Nov.	273,477	503,847	517,083	648,853	13.4	12.1	13.2	13.2
Dec.	303,536	548,936	562,222	687,446	10.4	10.1	11.1	11.6
1986 — Jan.	292,155	538,305	552,914	684,267	9.5	9.3	10.1	11.1
Feb.	285,339	527,562	542,722	679,463	9.6	8.9	9.5	10.8
Mar.	288,297	527,805	543,359	683,876	9.9	8.5	9.0	10.8
Apr.	289,456	527,592	543,745	683,053	9.8	8.0	8.5	9.7
May	288,671	524,915	541,682	681,567	11.1	8.3	8.8	9.2
June	291,526	527,491	544,615	682,232	10.1	7.7	8.3	8.1
July	294,071	531,314	548,569	686,324	8.8	7.0	7.7	7.3
Aug.	291,463	530,791	548,285	686,175	8.8	6.9	7.7	7.0
Sept.	298,055	538,087	556,380	693,148	9.5	7.4	8.2	7.0
Oct.	302,077	543,573	563,055	698,468	10.6	8.1	9.1	7.9
Nov.	304,477	547,971	568,251	702,133	11.3	8.8	9.9	8.2
Dec.	335,904	593,558	614,973	744,024	10.7	8.1	9.4	8.2
1987 (5) — Jan.	321,224	580,377	606,005	737,378	9.9	7.8	9.6	7.8
Feb.	314,230	571,286	599,154	731,759	10.1	8.3	10.4	7.7
Mar.	316,446	572,833	602,138	736,204	9.8	8.5	10.8	7.7
Apr.	319,694	576,633	606,737	741,651	10.4	9.3	11.6	8.6
May	319,125	576,341	607,019	743,026	10.5	9.8	12.1	9.0
June	325,008	581,368	612,063	746,794	11.5	10.2	12.4	9.5
July	327,926	585,244	614,486	755,005	11.5	10.2	12.0	10.0
Aug.	324,016	582,751	611,446		11.2	9.8	11.5	

(1) Notes and coin and current accounts. — (2) M1 plus 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. — (5) Provisional data.

Table a36

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
1981	76,359	15,202	14,521	756	6,291	4,475	2,835	9,463	42,231	−7,675	−11,740
1982	89,353	11,351	13,461	4,412	11,592	3,909	2,230	3,517	58,982	−10,048	−10,053
1983	122,395	21,462	11,549	2,422	14,139	8,567	3,000	1,720	71,864	706	−13,034
1984	137,931	35,930	14,469	1,925	10,780	6,365	3,300	1,355	82,209	−7,254	−11,148
1985	144,700	33,338	11,409	1,694	11,837	7,740	4,192	5,065	97,528	−7,761	−20,342
1986	171,028	23,467	16,896	5,286	7,040	17,425	7,570	367	93,133	665	−821
1985 — July	11,781	7,132	681	132	−5	−66	520	704	8,796	902	−7,015
Aug.	4,538	−4,326	1,486	30	551	696	411	−361	6,189	2,015	−2,153
Sept.	15,028	495	671	−83	3,437	129	479	25	11,079	−404	−800
Oct.	6,563	6,309	463	833	−1,406	1,244	314	346	5,832	−1,442	−5,930
Nov.	7,528	4,076	1,414	−2	470	−354	120	271	13,473	−693	−11,247
Dec.	47,649	13,279	4,038	−346	711	4,774	175	−263	6,348	−2,025	20,958
1986 — Jan.	6,115	−5,761	800	2,048	289	1,457	894	−59	236	−1,529	7,740
Feb.	8,432	−4,316	1,992	1,415	928	682	735	92	11,818	−1,219	−3,695
Mar.	13,386	−1,190	2,906	508	535	816	736	−472	11,640	−1,269	−824
Apr.	12,527	5,640	951	17	279	−597	326	1,919	12,684	−1,308	−7,384
May	10,658	243	1,237	−176	1,436	−683	91	1,812	8,777	533	−2,612
June	7,597	909	−1,705	−832	772	1,958	960	84	−7,507	530	12,428
July	11,758	10,605	749	1,390	332	1,711	723	−502	8,815	3,642	−15,707
Aug.	7,054	−4,351	535	3	663	2,694	632	−1,133	7,251	2,831	−2,071
Sept.	16,075	955	1,587	−409	211	2,680	859	−1,192	13,857	827	−3,300
Oct.	18,123	8,495	2,339	−76	568	3,847	453	−492	6,458	791	−4,260
Nov.	11,846	3,846	1,829	677	611	1,225	496	508	13,938	−404	−11,250
Dec.	47,827	8,392	3,676	721	416	1,633	666	−198	5,166	−2,760	−30,115
1987 (6) — Jan.	4,665	3,891	11	−22	555	1,132	968	−247	−102	612	−2,133
Feb.	8,421	−183	1,588	322	616	−790	1,097	1,332	10,626	−768	−5,419
Mar.	13,160	−3,824	2,240	822	1,014	674	1,011	2,598	11,841	−726	−2,490
Apr.	14,398	4,015	1,023	116	669	270	538	1,165	14,648	357	−8,403
May	6,600	2,879	904	−153	541	35	600	−537	9,115	−1,511	−5,273
June	11,049	1,805	−214	148	443	2,863	1,465	−1,465	−4,896	273	10,844
July		6,345	2,124	592	1,494		686		12,192		
Aug.		−5,003	210	−20					8,793		

(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 funding of debts of health and social security institutions. — (5) Current account balance on a settlements basis. — (6) Provisional data.

Economic policy provisions

Monetary and credit measures

On 13 March the discount rate was lowered from 12 to 11.5 per cent. At the same time a compulsory reserve on net increases in foreign currency deposits was introduced for banks equal to 25 per cent of monthly changes, to bear interest at 5.5 per cent. On 27 August the discount rate was raised again to 12 per cent and in September the compulsory reserve on foreign currency deposits was abolished. On 13 september a ceiling on lira lending by banks was introduced, to remain in effect between September 1987 and March 1988.

Tax measures

Decree laws dated 27 August and 24 September increased the rate of preliminary payments of direct taxes (tax on interest from bank deposits, corporate income and local income taxes) and raised the fixed stamp duty for administrative acts and the special tax on stock exchange contracts; some indirect taxes were also raised (in particular, an extra 4 per cent VAT on specific durables). The increase from 6.25 to 12.50 per cent in the withholding tax on income from government securities was at the same time brought forward to come into effect on 31 August instead of30 September. Another decree law of 28 August modified the provisions relating to the fiscalization of social security contributions. The procedures for disbursimg social security benefits were changed, with effect back-dated to 1 January 1987, so that the deductions are calculated as a fixed sum rather than in proportion to wages.

Exchange provisions

On 12-13 May exchange regulations and other measures covering financial operations abroad were liberalized: the non-interest-bearing deposit on foreign investments and the compulsory foreign currency financing of early payment of imports were abolished; the period for using foreign exchange held in external accounts was increased from 60 to 120 days; "cumulative" external accounts were instituted (permission for parent companies to open foreign exchange accounts for subsidiary companies) together with "comprehensive" foreign currency loans (covering more than one commercial operation). However, certain restrictions regarding foreign exchange were reintroduced on 13 September: these covered, in particular, the early repayment of export-import loans in foreign currency, the conditions for use of external accounts and advance payments for imports.

List of abbreviations

ABI	—	*Associazione bancaria italiana* Italian Bankers' 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 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
UIC	—	*Ufficio italiano cambi* Italian Foreign Exchange Office

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

M2A: *M1 + savings deposits and bank's securities repurchase agreements with customers.*

M2: *M2A + banks' CDs conforming with the Ministerial Decree of 28.12.1982.*

M3: *M2 + bankers' acceptances and 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 freely available and convertible into lire under the regulations governing borrowing from abroad and convertibility) (until 1983)*
— *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.*

Unemployed workers

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

Scala mobile

— *various Italian systems of wage indexation. The mechanism introduced in 1986 is based on the trade union cost-of-living index and half-yearly adjustments. It provides:*

1) 100% indexation of a minimum wage of 580,000 lire for all workers;

2) 25% indexation of a second wage component equal to base pay + cost-of-living allowance — the indexed minimum wage of point 1).

The residual wage component (including overtime, production and seniority bonuses, etc.) is not indexed.

In the event of an increase in indirect taxes, unions, employers and the Government are to agree how and how much of the effect is to be included in the reference price index.

Under-employed persons

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

Unemployment

— *Unemployed workers + First job seekers + Other job seekers.*

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).*

MANAGEMENT OF THE BANK OF ITALY

as at 31 October 1987

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
Luigi PATRIA	— Central Manager for Technical Departments
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
Giorgio MAYDA	— Inspector General
Luigi SCIMIA	— Central Manager for Bank Property and Special Projects
Alfio NOTO	— Central Manager with responsibility for the Milan Branch