BANCA D'ITALIA

Economic Bulletin

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INSERTS

Economic Developments and Policies

SYMBOLS AND CONVENTIONS

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

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

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

"Post Office deposits" includes PO savings certificates.

Economic Developments and Policies

The international economy

The economic cycle and international payments imbalances

Domestic demand in the industrial countries expanded faster than expected in the second half of the year (3.5 per cent on an annual basis), resulting in a sharp recovery of international trade (8.5 per cent). Last October's stock market crash had no significant repercussions on economic activity. Nonetheless, the persistence of wide imbalances in international payments and the difficulties of fulfilling commitments to coordinate economic policies caused marked instability in the financial and exchange markets, as well as uncertainty regarding the duration of the present phase of recovery.

In the second half of the year gross product in the industrial economies expanded by 3.3 per cent on an annual basis (Table 1), the highest rate for three years. In the United States the recovery of private consumption and of investment led to an increase in domestic demand of 2.5 per cent, against 1.9 per cent in the first six months. Gross product for the whole year grew by 2.9 per cent, the same as in 1986, with the foreign component making a positive contribution of 1 percentage point. The marked rise in stocks in the last quarter of 1987 could, however, signal a temporary slowdown in the expansion of the American economy. In Japan, domestic demand grew during the second six months at a rate of almost 6 per cent on an annual basis. Public sector investment expanded particularly fast (19 per cent on an annual basis), stimulated by the fiscal measures adopted last May. The foreign component made a negative contribution equivalent to about 1 per cent of real output. In the EC countries, in spite of the fact that GDP grew at a rate of 3 per cent in the second half of the year, or double the pace of the first six months, growth for the whole year remained below that for 1986 (2.4 and 2.6 per cent respectively). GDP increased sharply in the United Kingdom (3.7 per cent), Spain (4.3 per cent) and Portugal (3.4 per cent). In Germany growth stayed below that of the previous year (1.7 against 2.6 per cent) in spite of a good recovery in the second six months: this was entirely due to the slowdown in domestic demand (from 3.7 per cent in 1986 to 2.6 per cent in 1987). Growth rates in France and Italy over the whole year stayed close to 1986 levels (1.8 and 2.8 per cent respectively). The negative contribution of the foreign component (more than 1.5 per cent of total product) weighed heavily on both countries and was greater than that recorded in Germany (around 1 per cent).

The different pace of growth in the industrial economies was reflected in unemployment rates: these continued to fall, above all in the United States (5.8 per cent in December 1987 against 6.7 per cent at end-1986), but rose in the European nations as a whole and in particular in Germany, where at the end of the year unemployment was back to around 9 per cent.

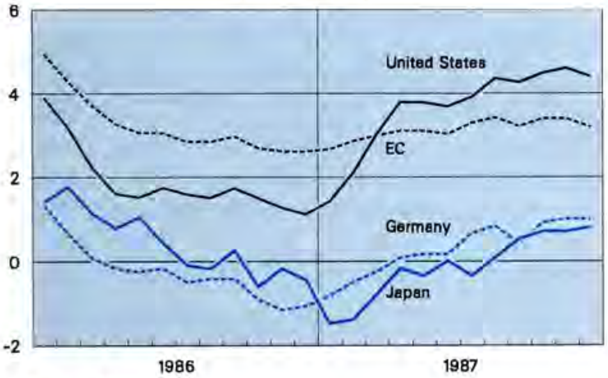
The pace of consumer price increases in industrial countries, which had shown some signs of speeding up during the summer months, slowed down again towards the end of the year (Figure 1). In the 12 months to end-December consumer prices rose by 4.4 per cent in the United States and by 1 per cent in Japan and Germany. In the EC the rate of inflation remained virtually unchanged over the year (3.2 per cent to

December). Spain, Greece and Portugal made appreciable progress, although rates of price increase, as in Italy, remained above average. In the United States, despite the large depreciation of the dollar, the inflation rate stabilized in the second half thanks to the moderate change in wage incomes and the limited rise in import prices. In correspondence with this depreciation, the dollar prices of non-oil primary goods rose by around 25 per cent in the 12 months to December, above all as a result of the increase in the prices of non-food agricultural primary products (31 per cent) and the surge in mineral and metal prices (64 per cent). However, when the index is calculated in both ECUs and yen and adjusted to compensate for the effect of the dollar's depreciation, the increases are much more modest (around 5 per cent). During the second half of 1987 oil prices tended to fall: in spite of attempts by OPEC to enforce the agreed production quotas, supply was on average around 3 million barrels per day over the target ceiling. In December, spot prices of Middle-Eastern crude oil fell to around 15 dollars. Conditions on the oil market are still marked by widely fluctuating prices. At the start of 1988, following a slight slowdown in output, prices rose again to around 17 dollars.

Figure 1

Twelve-month changes in consumer prices

(percentages)



Source: OECD.

In the second half of 1987 trade volumes in the three leading economies moved in the direction needed to bring about a reduction of trade imbalances in value terms. However, the

Table 1

Contribution of the main components of demand to growth in real gross product in the leading industrial countries

(% changes on previous period)

	1986	1987	1987 H1	1987 H2
United States				
Private consumption	2.7	1.2	0.1	1.4
Public expenditure	0.8	0.5	−0.1	1.0
Private investment (1)	−0.3	0.1	−0.5	1.6
Stocks	0.2	0.8	2.5	−0.1
Exports - imports	−1.1	0.6	1.2	—
Gross product (2)	**2.9**	**2.9**	**3.2**	**3.8**
Japan				
Private consumption	1.5	1.8	2.0	1.8
Public expenditure	0.9	0.8	−0.6	1.5
Private investment (1)	1.2	1.3	1.6	1.0
Stocks	−0.2	−0.3	−0.3	0.5
Exports - imports	−1.4	−0.7	—	−1.0
Gross product (2)	**2.4**	**3.5**	**3.3**	**4.5**
Germany				
Private consumption	2.3	1.5	0.7	2.3
Public expenditure	0.6	0.3	−0.6	1.3
Private investment (1)	0.5	0.5	0.5	0.5
Stocks	0.1	0.5	1.1	−1.5
Exports - imports	−1.1	−1.0	−1.5	—
Gross product (2)	**2.5**	**1.7**	**−0.8**	**3.5**
7 leading industrial countries (3)				
Private consumption	2.4	1.5	0.9	2.0
Public expenditure	0.7	0.5	−0.1	0.8
Private investment (1)	0.2	0.5	0.3	1.3
Stocks	0.2	0.3	1.3	−0.5
Exports - imports	−1.1	−0.2	0.4	—
Gross product (2)	**2.8**	**2.8**	**2.7**	**3.5**
Industrial countries				
Gross product (2)	**2.8**	**2.8**	**2.7**	**3.3**

Sources: National bulletins and OECD.

(1) Excluding building. — (2) Percentage changes on previous period; half-yearly figures on an annual basis. — (3) Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.

only country effectively to record such a reduction was Japan (from 102 billion dollars in the first six months to 92 billion in the second, on an annual basis): this was the result of a strong rise in imports (15 per cent on an annual basis). In the other two countries, by contrast, the adjustments in trade flows by volume were offset by opposite movements in relative prices (Figure 2). In the United States the increase in the volume of exports (23 per cent on an annual basis) was higher than that of imports (10 per cent); nevertheless, the terms of trade fell by around 3 per cent and the trade deficit, at 156 trillion dollars on an annual basis, was almost unchanged in comparison with the first half of the year. In Germany imports rose in the second six months slightly faster than exports (7 and 5 per cent respectively, on an annual basis), but prices played against a reduction in the trade surplus, which came to around 70 billion dollars over the whole year. Trends in current account imbalances in the leading industrial countries followed those of trade balances (Table 2). The current account deficit for 1987 in the United States is expected to be of the same order as the trade deficit. This is a consequence of the sharp reduction of the surplus in the services sector — owing to the growing burden of interest payments on foreign debt — which only just offset the traditional deficit on account of official transfers. The Japanese current account surplus remained similar to that for the previous year (86 billion), while in Germany it rose to 44 billion dollars (from 37 billion in 1986). In the other principal EC countries, by contrast, there was a deterioration in current account balances.

For the first time since 1980 the current account balances of developing countries broke even, thanks to increased exports (2.3 per cent) and a fall in imports (0.5 per cent), especially in the OPEC countries (23 per cent). Whereas the latter are expected to record another slight deficit (7 billion dollars against 34 billion in 1986), non-oil-exporting LDCs should turn a deficit of 10 billion dollars in 1986 into a surplus of around 6 billion in 1987. However, almost two thirds of this improvement can be ascribed to the newly industrialized nations of South-East Asia, whose current account surplus exceeded 30 billion dollars, around 13 per cent of their gross product. The deficit of the most heavily indebted countries remained at last year's levels (over 10 billion dollars).

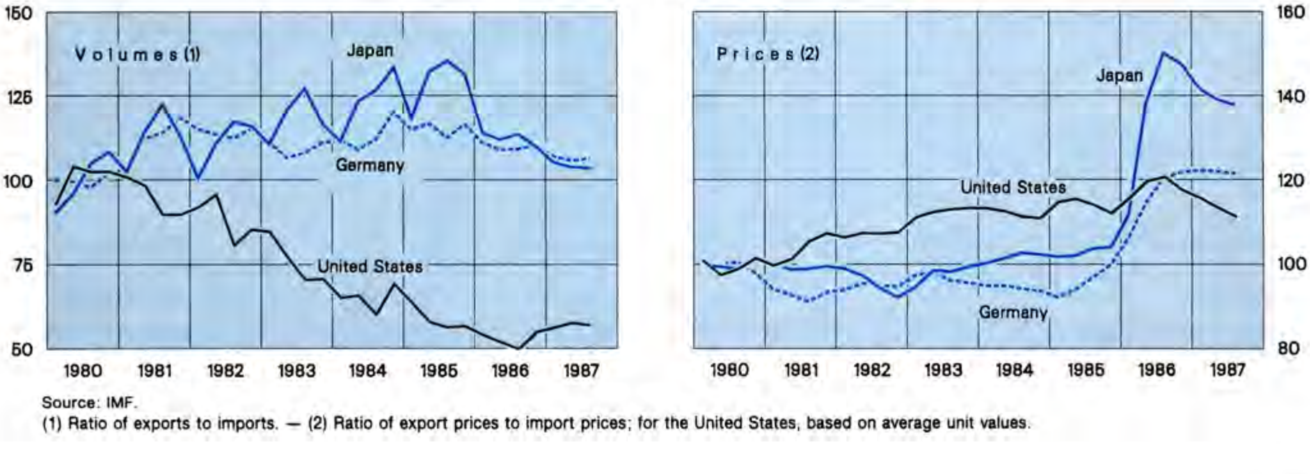
Economic policies and exchange rates in the industrial nations

During 1987 it became increasingly difficult to implement coordinated economic policy measures capable of producing a significant reduction in the current account imbalances of the major industrial nations. While fiscal policies were on the right track, they proved inadequate to produce the required change in growth rates of

Figure 2

Trade volumes and terms of trade

(indices, 1980 = 100)



Source: IMF.

(1) Ratio of exports to imports. — (2) Ratio of export prices to import prices; for the United States, based on average unit values.

the principal economies. In the case of monetary policies, it was often difficult to reconcile national objectives with the aim of stabilizing exchange rates, as envisaged in the February 1987 Louvre Agreement. Uncertainty regarding the direction of economic policies tended to undermine confidence as to the success of the efforts of international cooperation and to add to the risks perceived in the financial and exchange markets.

1987 marked a reversal of tendency in the fiscal policies of the three leading countries compared with preceding years: in the United States policy became tighter, while in Japan and to some extent Germany it was more expansive. This went some way, though not far enough, towards stabilizing exchange rates. The federal deficit in the United States for the financial year ending September 1987 was 148 billion dollars, a decrease of more than 70 billion on the previous year. However, this was attributable in large measure to the temporary effects of the tax reform introduced last year (see *Economic Bulletin* No. 5). The expansionary impetus in Japan was provided by the reflationary budget package announced last May; in Germany the public sector deficit was higher than forecast, partly as a result of the slower growth of gross product.

Monetary policies throughout 1987 were influenced by the need to sustain the dollar's exchange rate and by instability in the financial markets. During the summer, policy stances became slightly more restrictive worldwide, with a tendency for short-term interest rates to rise. Concerns about the overshooting of monetary aggregates (Figure 3), resulting from very large interventions in the first half of the year, led the Japanese authorities to introduce ceilings on the growth of loans and the German authorities to increase short-term interest rates. Interest rates in the United States rose owing to fears of a pickup in inflation: in September the discount rate was increased by half a point. Long-term rates also moved up — substantially so in the United States — as a result of expectations of a fall in the dollar's exchange rate. After a phase of relative stability at the start of the summer, the dollar lost 5 per cent against the Deutschemark and the yen between mid-August and end-September, partly brought about by the release of new figures on the US trade balance indicating a widening of the deficit.

The beginning of October saw a renewed upward tendency in interest rates (Figure 4). The Deutsche Bundesbank's base rate for repurchase agreements was increased by half a point; US rates rose in response to fears that a further tightening of monetary conditions was inevitable in order to stabilize the dollar's exchange rate. This caused operators to modify their assessment of the relative yields on different financial assets. In particular, the surge in share prices over the first nine months of the year was considered excessive, as it had opened a wide gap in relation to the prices of other financial assets.

Table 2

Trade and current account balances

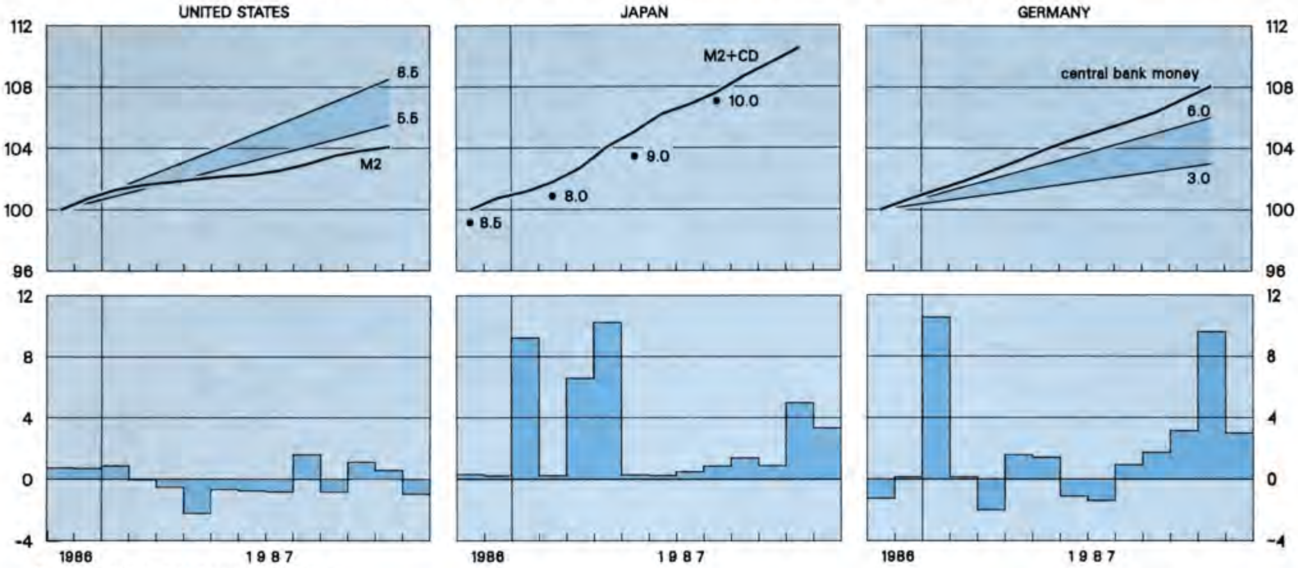
(billions of dollars)

	Trade balances fob-fob				Current account balances			
	1986	1987	H1 (1)	H2 (1)	1986	1987	H1 (1)	H2 (1)
OECD countries	−6.9	−25.8	−17.6	−34.0	−22.8	−46.0	−36.0	−56.0
of which: United States	*−144.3*	*−156.3*	*−156.6*	*−156.0*	*−147.3*	*−156.0*	*−155.9*	*−156.0*
Japan	*92.8*	*96.9*	*101.8*	*92.0*	*85.8*	*86.5*	*91.0*	*82.0*
EC countries	*43.0*	*27.5*	*32.4*	*22.6*	*49.3*	*40.0*	*44.3*	*36.0*
of which: Germany	*56.4*	*70.2*	*68.4*	*72.0*	*37.1*	*44.0*	*43.0*	*45.0*
Fuel-exporting countries	14.4	46.0	—	—	−37.9	−6.0	—	—
Other developing countries	−6.3	4.0	—	—	−9.2	6.0	—	—

Sources: IMF, OECD.
(1) Seasonally adjusted figures on an annual basis.

Figure 3

Monetary aggregates and changes in official reserves (1)



Sources: BIS, IMF and national bulletins.
(1) For monetary aggregates: indices, last quarter 1986 = 100; for reserves: billions of dollars.

On 19 October, a conspicuously heavy unloading of equities sparked off the New York Stock Exchange collapse, which reverberated throughout the principal world markets. The US monetary authorities reacted by increasing the economy's liquidity and reducing interest rates. In other countries, and especially in Germany, interest rates initially remained stable, thus narrowing the gap vis-à-vis US yields. This change in relative monetary conditions, combined with the market's perception that the priority objective of the US authorities might be to stabilize the financial markets rather than the dollar's exchange rate, brought the dollar under heavy pressure during the last few days of October (Figure 5). The pressure continued as the impression spread that the fiscal measures approved by Congress in November might not be sufficient to reduce the public sector deficit. Between the second half of October and the end of December the dollar fell by over 10 per cent against the European currencies and the yen in spite of heavy interventions (amounting to about 30 billion dollars in the period October-December), mainly by the central banks of Japan and the United Kingdom.

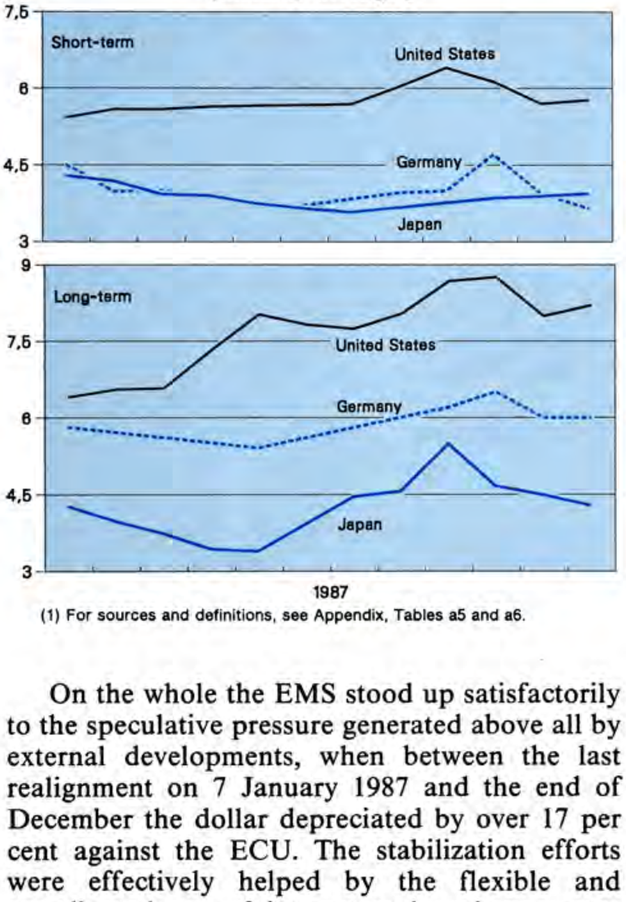
On 23 December the 7 leading industrial nations reaffirmed their intention to strengthen the coordination of economic policies in order to reduce international disequilibria and stabilize exchange rates, in conformity with the Louvre Accord. However, this was not sufficient immediately to ease the pressure on the dollar, which on 4 January fell to record lows, reaching levels of 1.56 Deutschemarks and 120 yen. It was only after very large interventions by the leading central banks, in which an active role was seen to be played by the Federal Reserve, that the dollar exchange rate settled down and expectations of further depreciation began to evaporate. By mid-January the dollar had climbed back to around 1.68 Deutschemarks and 130 yen, partly as a result of new data showing a reduction of the trade deficit for November 1987.

In the days following the crash of the stock markets, the depreciation of the dollar, together with a slower fall in interest rates in Germany than in other European countries, led to strong tensions within the EMS, particularly in relation to the French franc. Notwithstanding heavy interventions, the pressure was such as to induce the French authorities to let the franc slide to the lower part of the narrow fluctuation band (Figure 6). The lira followed suit, slipping to around half a percentage point below this band. On 5 November the German and French central banks in conjunction announced a half-point reduction of the Lombard rate. The French central bank also raised short-term interest rates by 0.75 per cent, producing a turnaround in market operators' exchange rate expectations. A further reduction of the base rate in Germany and the Netherlands in the second week of November helped to bring calm to the market: the French franc climbed back towards the centre of the fluctuation band while the lira stayed slightly below the lower limit of the narrow band.

Figure 4

Short and long-term interest rates (1)

(monthly averages)



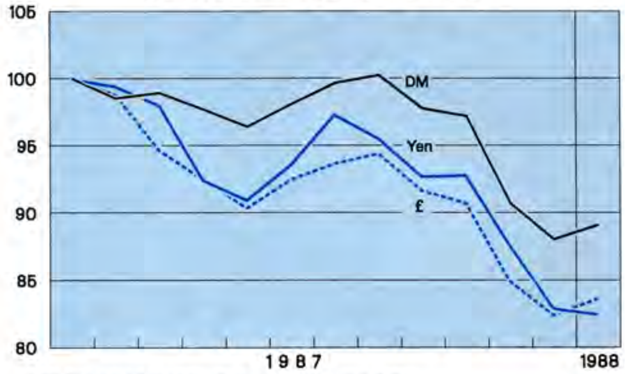
(1) For sources and definitions, see Appendix, Tables a5 and a6.

On the whole the EMS stood up satisfactorily to the speculative pressure generated above all by external developments, when between the last realignment on 7 January 1987 and the end of December the dollar depreciated by over 17 per cent against the ECU. The stabilization efforts were effectively helped by the flexible and coordinated use of interest and exchange rates and very short-term credit facilities provided for by decisions taken in Basle by the Committee of Governors and confirmed in Nyborg (see *Economic Bulletin* No. 5). The stability of exchange rate relationships within the EMS made it possible, on 3 December, for Germany, France, the United Kingdom, the Netherlands and Belgium jointly to reduce discount or intervention rates, with the aim of countering the depreciation of the dollar exchange rate. The downward movement of interest rates continued during January 1988, especially in France and the Netherlands, where the official rate was twice reduced during the month.

Figure 5

Bilateral exchange rates of the dollar (1)

(indices, January 1987 = 100)



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

In Germany, after two years in which the reference aggregate of monetary policy (central bank money) had overshot the target, the Bundesbank decided to use the broad aggregate M3 as the reference indicator for the 1988 target band.

In the United Kingdom the Bank of England opted for massive interventions to counter upward pressures on the pound against the EMS exchange-agreement currencies, rather than for a further reduction in interest rates. This made it possible simultaneously to avert an appreciation of sterling — with consequent unfavourable effects on the competitiveness of British industry — and to avoid a reduction of interest rates, which could have led to an excessive recovery of domestic demand and faster inflation.

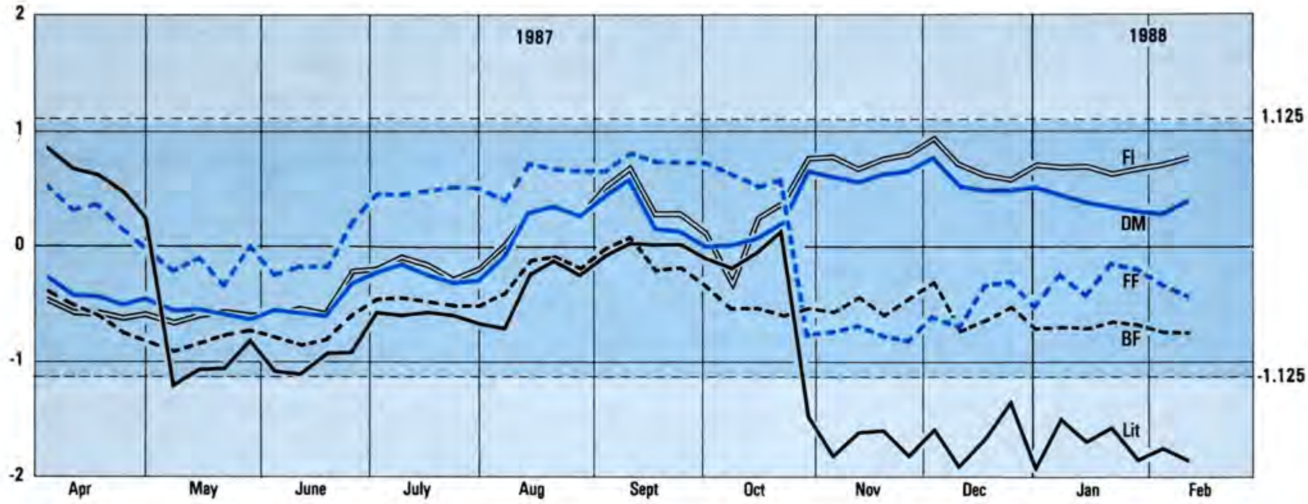
International financial markets and foreign debt problems

The great interdependence of financial markets meant that last October's collapse of share prices spread swiftly throughout the leading

Figure 6

Divergence of market rates from EMS central parities

(percentages)



industrial economies. In the United States the close links between the futures and spot markets led to the rapid transmission of impulses arising from expectations of future price variations. The fall in prices was so great that in a few days it completely wiped out the gains of the first nine months of the year, so that at the end of October prices were back to the levels of the preceding January. They tended to stabilize over the following weeks and showed a slight upward trend. On the European markets, by contrast, prices continued to decline between late October and the year's end, reaching a level more than 30 per cent below that of January 1987.

The international financial markets recorded a slight fall in new issue activity in 1987 (299 billion dollars against 321 billion in 1986; Table 3). This reflected above all an expected increase in interest rates, the high degree of uncertainty regarding exchange rate trends and the much greater role of official financing in the settling of current account imbalances. Moreover, the growing internationalization of financial intermediaries makes it increasingly difficult to draw a clear distinction between operations on international markets and those on domestic markets, with the result that the global assessment of current trends in international financial relations is more complex.

The easing off in bond issues continued during the second half of the year. This was attributable not only to a persisting decline in the demand for floating rate instruments as a result of the liquidity crisis in this sector last year, but also to a drop in issues of fixed rate notes and equity-related bonds (convertible bonds or bonds with warrants), which virtually came to a standstill following the stock market crash. The difficulties facing the bond markets gave rise to a strong increase in banking intermediation. Gross lending by banks operating on the international markets expanded by over 50 per cent; syndicated loans, in particular, rose from 63 billion dollars in 1986 to 92 billion in 1987 (Table 3).

The external debt problem of the developing countries remains acute. In the fifteen most heavily indebted countries the principal financial indicators showed no signs of improvement in 1987; in fact, foreign indebtedness expanded both in absolute terms and as a proportion of GDP and exports of goods and services. In view of the enduring nature of the crisis and the absence of any immediate prospects of solving it, some of these countries are finding it hard to persevere in policies of austerity. There are, moreover, signs of growing problems in financial relations between these nations and the commercial banks, which have considerably increased their loan loss provisions for the possible non-repayment of loans.

Table 3

International capital markets

(billions of dollars)

	1986	1987	1987 H1	1987 H2	1987 Nov-Dec
Gross bond issues (1)	228.1	177.3	100.3	76.9	20.4
of which: floating rate	*51.1*	*10.7*	*3.7*	*7.0*	*3.6*
equity-related	*26.9*	*39.3*	*17.1*	*22.2*	*0.1*
Syndicated loans (2)	63.2	91.9	38.1	53.5	24.9
Back-up facilities (3)	30.0	29.6	11.0	18.6	8.8
Total gross lending	**321.4**	**299.1**	**149.4**	**149.7**	**54.1**
% breakdown by borrowers					
OECD countries	89.0	86.5	85.1	87.9	88.8
of which: USA	*19.5*	*14.8*	*14.7*	*14.9*	*17.8*
OPEC countries	1.5	0.8	0.8	0.9	2.1
Other developing countries	4.6	7.4	9.3	5.6	4.2
Eastern Europe	1.2	1.2	1.2	1.1	1.1
Other	3.7	4.1	3.6	4.5	3.8

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.

In the light of these uncertainties, it was generally felt that there was a need for more incisive strategies to resolve the debt problem. In this context the scheme worked out at the end of last year by Mexico in co-operation with the US Administration represents a significant innovation, since it provides that Mexico might repurchase part of its debt at a discount. According to the scheme, Mexico would offer the commercial banks the possibility to exchange part of their credits for twenty-year bonds at LIBOR interest rates, plus a spread of 1.625 per cent (for a maximum total of 10 billion dollars). The exchange would be based on a system of tender offers by the commercial banks, on the basis of which the relative price between the old bank loans and the new bonds would be determined. In this regard it may be recalled that the current discount on the secondary market for loans to Mexico is around 50 per cent. The repayment of the Mexican bonds at maturity is to be guaranteed by a US Treasury issue of zero coupon bonds, having a maturity of twenty years and a face value of 10 billion dollars, designed especially for this purpose. Mexico will purchase these securities at a present value of about 2 billion dollars.

A number of significant measures have been taken to help the most impoverished nations, in particular those in sub-Saharan Africa, and to augment the flow of financing to them. An agreement was reached within the IMF at the end of last year to increase the resources of the Structural Adjustment Facility. While the financial details of the agreement have not yet been finalized, additional resources equivalent to about 6 billion SDRs should be set aside, to be loaned over the three years 1988-1990 to the countries with the lowest incomes, at an interest rate of 0.5 per cent. The industrial countries further agreed, as part of an initiative promoted by the World Bank, to a significant increase of co-financing and aid loans to sub-Saharan Africa. On the basis of commitments made by the donor countries at a meeting in Paris last December, the World Bank foresees that official loans to these countries should rise by around 3 billion dollars in the period from 1988 to 1990.

The Italian economy and the balance of payments

An overview of 1987

Last year the Italian economy benefited from the continuing effects of the international transfer of income stemming from the improvement in the terms of trade. Recent data indicate that domestic demand accelerated further, expanding by about 4.5 per cent as against 3.2 per cent in 1986. The rate of output growth, however, remained unchanged, owing to a deterioration in net exports larger than that which occurred in 1986. Contributory factors included a differential in domestic demand expansion vis-à-vis other industrial countries of about 1 per cent and, reflecting the weakness of the US dollar, the fact that the real exchange rate of the lira against the currencies of Italy's main competitors remained close to the relatively high level reached at the end of 1986. An improved foreign trade performance in the second half, thanks to a slowdown in domestic demand and a pickup in export demand, enabled Italy to hold the deterioration of its merchandise trade deficit for the year to 7.5 trillion lire on a cif-fob basis.

As forecast, the faster pace of demand expansion recorded in 1987, as an average, involved both consumer spending and gross fixed investment. The acceleration of the first component, from 3.2 to over 4 per cent, was based on a larger growth in real disposable income, reflecting in particular a considerable increase in gross employee compensation and a new rise in gross entrepreneurial income. It is also likely that consumption outlays rose slightly faster than disposable income for the fourth consecutive year, stimulated by the growth of real wealth and only partly influenced by the financial crisis of October. The acceleration of investment in machinery, equipment and means of transport was still stronger, thanks primarily to a speeding up of investment in late 1986 and early 1987 in the context of a substantial accumulation of internal funds and a high degree of capacity utilization.

As in 1986, the continuing expansion of output engendered by the trends in domestic and export demand affected industry and marketable services to about the same extent, but the contribution of the agricultural sector was strongly negative.

Although economic growth continued at much the same rate as in the two years 1985-86, employment, which had risen on average by 1.1 per cent in that earlier period, remained unchanged. This is explained by a faster exodus from agriculture (the farm work force was on average about 70,000 smaller than in 1986, according to labour force surveys) and a lower elasticity of demand for productive labour in the services sector, while the labour shedding in industry slowed further. Since the labour force continued to grow, though at a slower pace than in 1986, the average unemployment rate in 1987 rose further from 11.1 to 12.0 per cent (or from 12.7 to 13.3 per cent net of Wage Supplementation).

The renewal of a number of collective bargaining contracts helped extend to wage and salary earners the benefits of the improvement in the terms of trade that had taken place in 1986. In industry, owing in part to a decrease in fiscal relief on social security contributions estimated at more than 1 per cent, the cost of labour per employee rose by about 9 per cent. In the public administration as a whole it rose much faster, by more than 12 per cent.

External disinflationary influences had virtually petered out by early 1987, giving way, in the case of non-agricultural raw materials and crude oil, to new pressure on domestic prices. The inflationary effect of newly rising oil prices on energy inputs was moderated partly by the depreciation of the dollar but partly also by price components independent of the cost of energy, namely the excise tax on petroleum products and electricity tariffs. The latter were stationary in 1987, while the former rose less than the pre-tax price. Nevertheless, the prices of total domestic and imported manufacturing inputs, which had declined by 2.8 per cent in 1986, rose by about 2 per cent in 1987. An important component in the rise was production services, whose prices increased by nearly 7 per cent.

The reversal of trend in the movement of final prices was not as marked as that for input prices. The rate of increase in industrial producer prices, which during 1986 had fallen by half, from 6.2 to 3.1 per cent, rose to around 4 per cent by the end of 1987. The rate of price inflation for consumer goods and services also rose by one percentage point on the year, from 4.2 to 5.2 per cent, but if energy products are excluded from the basket the increase disappears. In both cases, the greater weight of external than of internal causes in bringing price deceleration to a halt is confirmed by the fact that the phenomenon was common to all the industrial economies. Measured by industrial producer prices in Italy's thirteen leading competitors, the country's inflation differential widened from about 2.5 percentage points at the end of 1986 to about 3 points at the end of last year. Measured by consumer prices, it narrowed from 3 to 2 percentage points relative to the same thirteen nations while widening slightly, from 1.2 to 2 points, relative to the rest of the EEC.

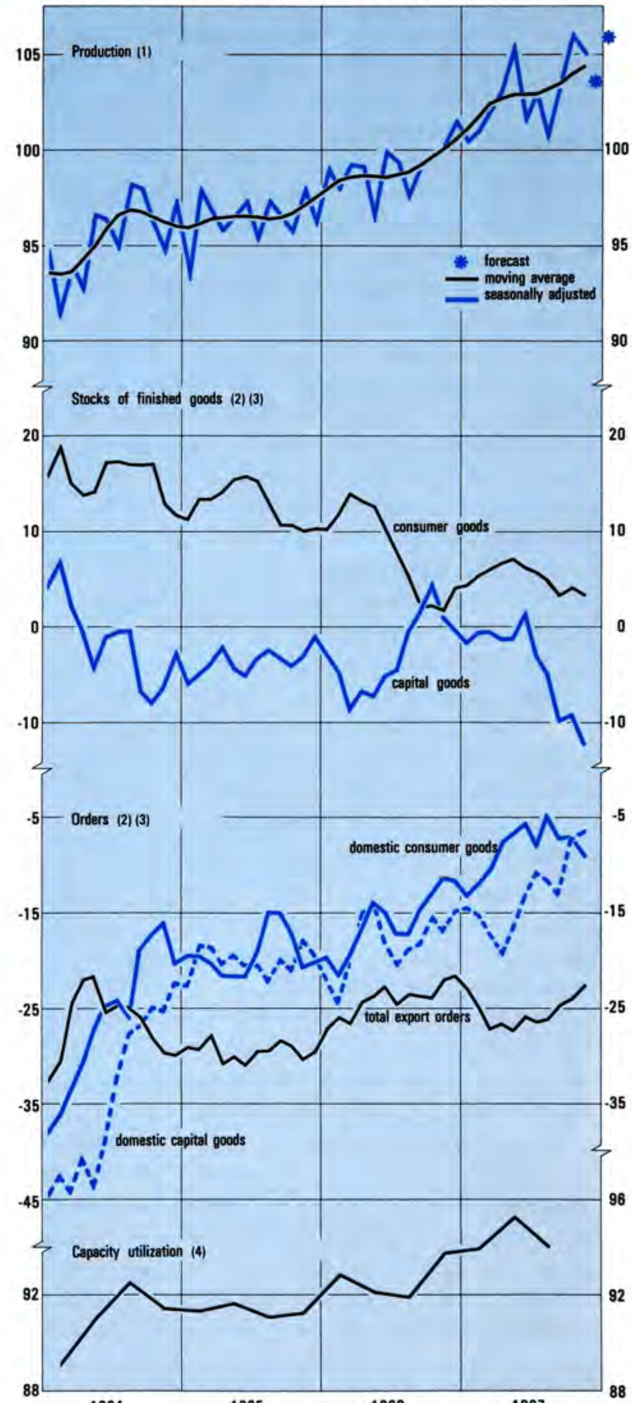
Domestic demand, output and employment

The speeding up of consumption that had begun in the latter part of 1986 and continued in the first half of 1987 came to a halt in the third quarter (Figure 7). The data on orders, businessmen's expectations and domestic motor vehicle sales suggest that the expansion of consumption proceeded more slowly in the fourth quarter as well. The explanation may lie not only in the slower increase in gross entrepreneurial income and the fiscal measures taken at the end of the summer but also in the increasing uncertainty of households about the economy's growth prospects.

After picking up speed in the last months of 1986, the demand for machinery and equipment continued to gain momentum in the first half of 1987, strongly stimulating both domestic output and imports. Imports grew further in the third quarter while domestic output fell appreciably. However, survey replies from investment goods producers regarding the deviation of their stocks from "normal" levels (Figure 7) suggest that the

Figure 7

Industrial output, stocks and capacity utilization



(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) Deviation from normal. — (3) Centred moving averages (three terms) of monthly replies to Isco-ME surveys of businessmen; seasonally adjusted, except for stocks of finished goods. — (4) Bank of Italy calculation using the Wharton method.

demand for investment goods did not decline but was met in part by running down stocks. According to this interpretation, the sustained investment expansion begun in 1983 was not reversed in 1987 — a view that seems to be corroborated by other information on orders, on businessmen's expectations for the last part of the year, and on output (again rising) and net imports in October and November. The production plans of firms in the capital goods sector would also seem to rule out the possibility of an interruption in investment growth in the first few months of 1988.

Although in the services sector economic activity expanded steadily throughout the year, industrial growth slowed down in the second half more sharply, indeed by even more than had occurred in the second half of 1986. On an adjusted basis, the annual rate of growth in overall industrial production dropped off from 5.5 per cent in the first half to about 3 per cent in the second half. This development reflects the slowdown in the growth of spending on consumer durables and semidurables as well as the drawing down of stocks to meet capital goods demand in the third quarter. Capacity utilization fell back in the second half from the cyclical peak reached in the second quarter. Combined with a surge in foreign demand, this contributed to the improvement in the balance of trade.

Quarterly estimates based on labour force surveys indicate that the slower pace of labour shedding in manufacturing has been maintained. The employment decline in this sector has been virtually uninterrupted since mid-1980. Less encouraging are the survey's data on large firms with over 500 employees. After remaining virtually unchanged during 1986, the number of hours worked in these firms resumed its decline in the first quarter of 1987, falling at an annual average rate of more than 2 per cent. The hypothesis of a newly widening gap in employment trends between small and large firms is flanked by another, namely that the decline in employment in the large firms still reflects the hiving off of corporate divisions as legally separate "small" companies.

The further sharp rise in the official unemployment rate during the year (from 11.6 to 12.3 per cent between October 1986 and October 1987) must be assessed in the light of the diminution of the number of full-time equivalent workers receiving Wage Supplementation benefits, which averaged some 60,000 less over the first three quarters than in the corresponding period a year earlier. If it does not encourage retirement or early retirement, the diminished use of Wage Supplementation as a way of providing hidden unemployment benefits means either officially acknowledging the worker's unemployed status or putting him effectively back on the job — which, other things being equal, reduces the demand for new labour. Net of the full-time equivalent workers on Wage Supplementation, the rise in the unemployment rate was more moderate, from 12.9 to 13.3 per cent.

The halt to disinflation

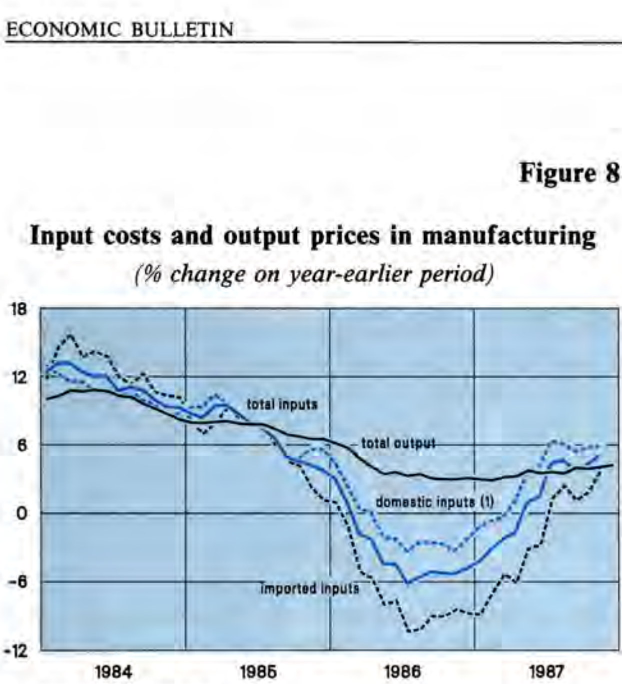
In the first half of 1987, the marked acceleration in employee compensation was only partly offset by productivity gains. Moreover, this development was accompanied by a rise in the prices of raw materials and crude oil relative to those of manufactures, thus reversing the previous favourable trend of prices for production inputs. The inflationary pressures from world markets continued in the third quarter. A further slight rise in oil prices was paralleled by an accelerated increase in the dollar prices of metals (9.7 per cent higher than in the second quarter, according to the Confindustria index) and a 2.4 per cent appreciation of the dollar against the lira. In the fourth quarter, despite the considerable rise in the dollar prices of metals, the faster growth of input prices should have moderated. In fact, there was a slowdown in the rise in the dollar prices of other industrial materials (fibres, hides and wood), while the price of crude oil fell to $16.90 a barrel fob ($17.70 cif) on average for the quarter. But more important, the dollar's exchange rate turned downwards again, depreciating by 6 per cent against the lira (Figure 8).

The ending of the exceptionally favourable circumstances that had made possible such substantial progress towards disinflation in 1986, together with the continued strong rise of nearly 7 per cent in the cost of service inputs, led to an

Figure 8

Input costs and output prices in manufacturing

(% change on year-earlier period)



Source: Based on Istat data.
(1) Includes energy inputs (electricity, petroleum and coal products) from the domestic energy sector.

increase in the average unit cost of total inputs, which was 4.2 per cent higher in the third quarter than in the corresponding period of the previous year. Business firms, by adjusting producer prices only partially to these inflationary pressures and to the rise in unit labour costs, accepted a narrowing of gross profit margins that had widened earlier. By the end of the year the twelve-month rise in the index of industrial output prices was back up to nearly 4 per cent. A particularly important factor in the rise in producer prices was the performance of export prices; though continuing to rise at a slower-than-average rate, they were boosted by the improvement in the nominal effective exchange rate with respect to Italy's main competitors in the first half of the year and by the pickup in world demand in the second (Table 4).

The inflationary pressures in the wholesale markets were evident mainly in capital goods industries, where high capacity utilization helped to raise the rate of price increase from 5 per cent at end-1986 to 7.2 per cent, as well as in those of non-food consumer goods. The modest movement in world prices for food and agricultural products helped to slow the rise in Italian food prices to 2.7 per cent at the end of the year.

The rate of consumer price inflation, after holding steady in the first half of the year, rose appreciably in the second. Concentrated between July and October, the rise was caused in equal measure by two distinct developments (Figure 9). First, the rise in crude oil prices in August and the increase in excise taxes on petrol and diesel fuel in September notably accelerated the rise in the prices of energy products. And second, the spilling over to consumer prices of the accruing inflationary pressures in non-food consumer goods industries, the temporary rise in VAT rates on some consumer durables enacted in August and the sharp rise in tobacco prices in October explain the acceleration from 4.9 to 5.5 per cent between June and October in the rate of increase in the prices of non-energy consumer goods.

Table 4

Variable unit costs and output prices in manufacturing

(% change on year-earlier period)

	1986	1987		
		Q1	Q2	Q3
Unit labour cost (1)	**3.7**	**4.6**	**5.5**	**5.7**
Input costs	**−2.8**	**−2.7**	**0.5**	**4.2**
Domestic inputs (2)	−1.1	−0.7	2.9	6.1
Energy	−18.8	−16.8	−4.3	9.1
Services	7.2	7.0	6.6	6.6
Imported inputs (3)	−6.9	−7.1	−4.0	1.6
Metals and semi-finished goods	−5.4	−6.1	−3.3	2.0
Food and agriculture	−6.7	−6.8	−8.1	−2.5
Variable unit costs	**−0.4**	**0.1**	**2.4**	**4.8**
Output prices: indicator	**3.9**	**3.1**	**3.5**	**3.8**
Average unit export prices (4)	−0.8	−0.3	0.9	2.6

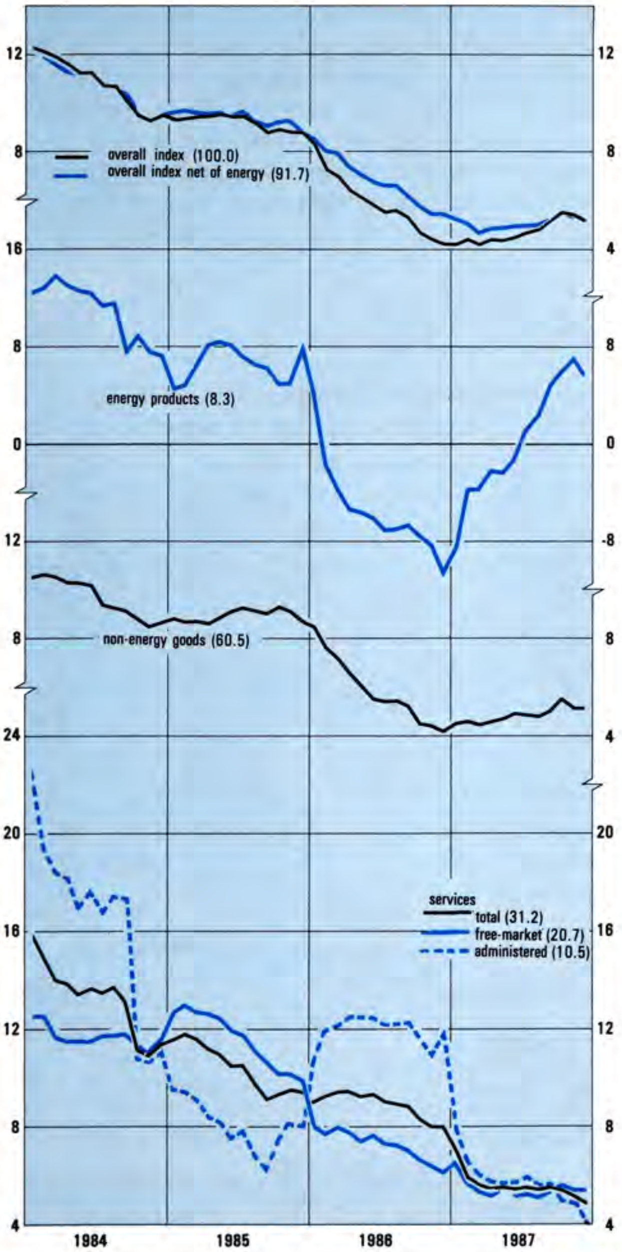
Source: Istat; data partially reworked. Manufacturing excluding energy products (coal, oil and coal products, gas and electricity) that appear as intermediate inputs produced chiefly by the domestic energy sector.
(1) Value added at factor costs; quarterly Istat estimates. — (2) Prices of domestic agricultural, energy and services inputs. — (3) Prices of imported food and agricultural products, metals and semi-finished goods, energy and services. — (4) Paasche index, not seasonally adjusted.

In the final two months of the year, a slowing down of the rise in energy prices was accompanied by a slight easing of inflationary pressures on other consumer goods. To some extent this may have been related to business reaction to the Government's reconfirmed pledge to take no action that would directly raise the inflation rate. Support for this view is found in the fact that between September and the end of December producers revised downwards their expectations for consumer prices for the first part of 1988. In January 1988 the twelve-month inflation rate, as measured by the consumer price index for urban wage and salary earners, eased slightly from 5.1 to 5.0 per cent.

Figure 9

Consumer prices

(% changes on year-earlier period)



Source: Istat; data partially reworked. In brackets, the weights of the individual aggregates in the index as of 1985.

In the course of the year the halt to disinflation coincided with a convergence of the prices of the various components of the consumer price basket around a common rate of growth. The slight acceleration of non-energy goods prices, the deceleration of unregulated service prices and, in the first few months of the year, the even sharper slowdown in regulated service prices brought the twelve-month rate for each of these components to about 5 per cent.

The balance of payments on current account

According to provisional and partially estimated data, Italy's balance of payments on current account closed in equilibrium in 1987, following a surplus of 3,345 billion lire in 1986 (Table 5). The latter, which was originally estimated at some 6 trillion lire, has now been revised substantially downwards as a result of important methodological changes concerning mainly "investment income" and "other services". The revision relating to investment income has

Table 5

Current account of the balance of payments

(balances in billions of lire)

	1986	1987		
		H1	H2 (1)	Year (1)
Goods (fob-fob)	6,283	−4,063	4,000	—
Foreign travel	10,351	4,411	6,100	10,500
Investment income	−9,201	−4,576	−4,400	−9,000
Public transfers	−4,360	−1,378	−1,400	−2,800
Other invisibles	272	809	500	1,300
Total	**3,345**	**−4,797**	**4,800**	**—**

(1) Provisional and partially estimated data; rounding may cause discrepancies.

permitted a clearer distinction between disbursements of investment income and foreign disinvestment, with the more accurate entries showing larger outflows for investment income and smaller capital outflows. The second change takes account of the fact that a part of grants of development aid is already recorded as unrequited exports or financial subsidies, and should thus not also be entered as the performance of services abroad. The resulting smaller surplus on "other services" was counterbalanced by a reduction in the negative balance of "errors and omissions".

On an adjusted (fob-fob) basis, the merchandise trade deficit worsened by more than 6 trillion lire between 1986 and 1987. The deficit on public unilateral transfers was reduced by 1.6 trillion lire, while other invisible items generated a surplus more than 1 trillion lire larger than the year before. Seasonally adjusted, the current account registered a deficit of more than 2 trillion lire in the first half of 1987, almost all of it being concentrated in the second quarter. After moving into equilibrium in the third quarter, a surplus in the fourth quarter brought the current account for the year as a whole into virtual balance.

According to customs data released by Istat, imports in value terms grew by 8.5 per cent in 1987 and exports by only 3.5 per cent (Table 6). In the first eleven months the terms of trade were about three percentage points better than in the same period of 1986, thanks to a rise in the average unit value of exports of about 1 per cent and a decline of 1.9 per cent in that of imports. The latter was due principally to the depreciation of the dollar (15 per cent on average between the two periods compared), while the average unit value of imported crude oil, cif, was 14.6 per cent higher in dollar terms, with the price fluctuating between $18.00 and $19.00 a barrel from February onwards. The volume of crude oil imports declined by 7 per cent, but this figure is distorted by large-scale oil purchases in the second half of 1986, when oil prices were low but rising rapidly. In the course of 1987, by contrast, there were no significant fluctuations in the quantities of crude oil imported apart from ordinary seasonal ones.

Year on year, total imports were 9 per cent greater in volume over the first eleven months. The decline in oil imports was more than offset by increased purchases abroad of agricultural raw materials, semi-finished goods, final consumer goods and, above all, final investment goods.

Spurred by buoyant domestic investment, capital goods imports rose by 17 per cent and, on average, constituted 18 per cent of Italy's total non-energy imports. The rapid growth in the volume of imports, which came to 11 per cent excluding the energy component, compares with a 4 per cent rise in domestic demand; thus in 1987 the demand elasticity of imports was higher than its medium-term average. A number of factors contributed to this development, including high capacity utilization in many industries, qualitative supply deficiencies in others, and a decline of about 1 per cent in average unit costs of imported manufactures, compared with a 3.5 per cent rise in domestic manufacturing output prices.

Table 6

Foreign trade: values, prices, volumes and principal determinants

(percentage changes)

	1986/1985	1987/1986
Exports		
Value	–1.0	3.5
Average unit value (1)	–4.7	0.9
Volume (1)	3.8	1.3
Imports		
Value	–11.3	8.5
Average unit value (1)	–17.7	–1.9
Volume (1)	7.6	9.0
Aggregate demand	3.2	3.9
Capacity utilization	1.3	2.3
World demand	2.9	5.0
Competitiveness (2)	2.9	2.2
Terms of trade (3)	15.8	2.9

Source: Based on Istat and OECD data.
(1) For 1987, January-November. — (2) Wholesale prices; a minus sign indicates a gain. — (3) A minus sign indicates a deterioration.

On the export side the rise in the average unit prices of manufactures was just over 1 per cent, and sales abroad, which had tended downwards throughout the first half of the year, speeded up sharply from mid-year onwards, especially in the third quarter, thus more than regaining the ground lost and producing an overall expansion of 1.3 per cent in the volume of exports in the first eleven months.

The cyclical lag between domestic and external demand, which had contributed to the deterioration in Italy's balance of trade in the first half of 1987, disappeared in the second half of the year owing to a slowdown in domestic demand and a simultaneous acceleration in world demand. OECD estimates show that world trade in manufactures was basically stationary in the first half, then grew at an annual rate of 8 per cent in the second half.

Measured in relation to the wholesale prices of Italy's thirteen leading competitors, the competitiveness of Italian goods is estimated to have fallen by two percentage points on average between 1986 and 1987, despite the decline in the lira's nominal exchange rate with the main EEC currencies in late October. This loss of competitiveness was attributable mainly to an appreciation of the lira's real exchange rate by more than 15 per cent against the dollar and by 1.3 per cent against the EEC currencies. In the course of 1987, however, the depreciations of the lira within the EMS in January, May and October more than offset the unfavourable trend in relative prices. Between December 1986 and December 1987 the real effective exchange rate of the lira decreased by about one percentage point.

Given an improvement of about 1 trillion lire in the energy balance, the deterioration in the overall merchandise balance reflects a contraction of the surplus generated by the other components, which dropped from 16,057 billion to 7,716 billion lire (Table 7). The worsening was most marked in trade in engineering products, textiles and transport equipment. The first two sectors experienced a reduction in their surpluses, which nevertheless remain substantial, while the third suffered a deficit of more than 2 trillion lire, owing mainly to trade in engines and motor vehicles, imports of which exceeded exports by 4,808 billion lire.

Table 7

Merchandise trade by product group

(billions of lire)

	EXPORTS (fob)		IMPORTS (cif)		BALANCE	
	1986	1987	1986	1987	1986	1987
Agriculture, forestry and fishery products	4,198	4,187	12,866	13,187	−8,668	−9,000
Energy products	4,133	3,722	23,853	22,576	−19,720	−18,854
Ferrous and non-ferrous metals	6,863	6,571	13,805	13,961	−6,942	−7,390
Minerals and non-metallic products	5,702	6,064	2,507	2,832	3,195	3,232
Chemical products	11,698	12,396	18,477	19,666	−6,779	−7,270
Engineering products	46,896	49,344	29,237	34,555	17,659	14,789
Transport equipment	13,200	14,058	13,744	16,447	−544	−2,389
Food, beverages and tobacco products	6,099	6,245	13,804	14,170	−7,705	−7,925
Textiles, leather and clothing products	29,764	30,269	9,174	10,789	20,590	19,480
Other	16,778	17,593	11,527	13,404	5,251	4,189
Total	**145,331**	**150,449**	**148,994**	**161,587**	**−3,663**	**−11,138**

Source: Istat.

Table 8

Merchandise trade by country and area
(billions of lire)

	EXPORTS		IMPORTS		BALANCE	
	January-November		January-November		January-November	
	1986	1987	1986	1987	1986	1987
EEC	**71,522**	**76,496**	**75,610**	**82,675**	**−4,088**	**−6,179**
Belgium-Luxembourg	4,468	4,639	6,342	7,296	−1,874	−2,657
France	20,892	22,377	19,874	21,235	1,018	1,142
Germany	24,353	25,527	27,926	30,905	−3,573	−5,378
Netherlands	4,404	4,224	8,048	8,152	−3,644	−3,928
United Kingdom	9,523	10,128	6,920	7,726	2,603	2,402
Ireland	358	348	550	651	−192	−303
Denmark	1,282	1,167	1,426	1,532	−144	−365
Greece	1,947	1,980	1,222	1,473	725	507
Spain	3,268	4,674	2,904	3,248	364	1,426
Portugal	1,027	1,432	398	457	629	975
United States	**14,268**	**13,155**	**7,874**	**7,853**	**6,394**	**5,302**
Japan	**1,783**	**2,180**	**2,902**	**3,112**	**−1,119**	**−932**
Canada	**1,656**	**1,586**	**780**	**962**	**876**	**624**
Eastern Europe	**3,792**	**4,051**	**5,648**	**5,934**	**−1,856**	**−1,883**
of which: USSR	2,108	2,493	3,158	3,290	−1,050	−797
OPEC	**8,514**	**6,815**	**13,155**	**12,000**	**−4,641**	**−5,185**
of which: Algeria	1,322	907	2,239	2,053	−917	−1,146
Saudi Arabia	1,984	1,715	2,506	1,584	−522	131
Libya	1,293	1,293	2,828	2,744	−1,535	−1,451
Iran	902	596	1,252	1,251	−350	−655
Other	**31,394**	**31,706**	**31,017**	**33,661**	**377**	**−1,955**
of which: China	1,296	1,241	959	1,200	337	41
Total ...	**132,929**	**135,989**	**136,986**	**146,197**	**−4,057**	**−10,208**

Source: Istat.

Data on the distribution of Italian foreign trade by country, available only through November, indicate that the worsening of the overall balance was principally in relation to Europe and the United States. The increase from 4,088 billion to 6,179 billion lire in the trade deficit with the rest of the EEC resulted above all from the deterioration in trade with Germany (by over 1.8 trillion lire), the United Kingdom and the Benelux countries. These changes were only partly offset by larger surpluses with Portugal and, especially, Spain (where Italy's net exports soared from 364 to 1,426 billion lire). The surplus on trade with the United States diminished from 6,394 to 5,302 billion lire (Table 8).

The invisible items of the current account, which have traditionally been in surplus, gave way to a deficit in 1986 and approximate balance in 1987. This adverse trend stems from the fast growth in recent years of public transfer payments, debt service, and foreign travel by Italian residents. The invisibles deficit, which amounted to 2,938 billion lire in 1986, was virtually eliminated in 1987, mainly because of lower public transfers. Net transfers to EEC bodies continue to show a negative balance, though not as large as in 1986. Transfers to developing countries were stable at 2.3 trillion lire over the first nine months.

Investment income and tourism recorded balances comparable with those of 1986. In particular, tourist receipts advanced by 8.4 per cent; deflated by the 4.6 per cent increase in Italian consumer prices, total tourist spending rose by 3.6 per cent at constant prices. These results reflect, in turn, a rise of roughly 8 per cent in overnight stays and a decline in average expenditure per head, partly because of the depreciation of the dollar. Spending by Italians abroad rose by 34 per cent, facilitated by more liberal travel allowances.

Taking account of the aforementioned methodological changes, the net outflow on investment income account has now reached 9 trillion lire, which compares with Italian net external liabilities estimated at 46 trillion lire, net of official gold reserves. The outflow is too large to be accounted for solely by differences in yields between external assets and liabilities. Hence it seems likely that the income on Italian investments abroad is not all repatriated but mostly reinvested outside Italy.

Capital movements and the exchange rate

In 1987 Italy's official reserves increased by 6,764 billion lire after exchange rate adjustments and the revaluation of gold reserves. The increase was due entirely to inflows of capital, as the current account for the year as a whole was virtually in balance (Table 9). In 1986, the increase in reserves had been about half as large and had been generated by a current account surplus.

The capital inflows in 1987 came mainly through banking channels (5,127 billion lire) and were concentrated in the first and last quarters. In the first quarter the increase in banks' external debt was encouraged by strong loan demand and by a covered interest differential of two or three percentage points between the lira and the other leading currencies. In the fourth quarter, after the September package of measures, and with a covered differential hovering around zero, the inflows of bank capital were spurred by the requirement to finance certain commercial transactions in foreign currency and by the restrictions on the expansion of lira lending.

Table 9

Capital movements (1)
(billions of lire)

	1986	1987 H1	1987 H2	1987 (2)
Inward investment	1,576	331	−300	—
Outward investment	−7,254	−2,920	−4,100	−7,000
of which: portfolio	*−2,835*	*−1,585*	*−2,263*	*−3,848*
Foreign loans	4,926	5,128	7,088	12,216
Italian loans	−1,825	−1,280	−700	−2,000
Trade credits and errors and omissions	−3,733	1,737	−3,350	−1,579
Total non-bank capital flows	**−6,310**	**2,996**	**−1,362**	**1,637**
Total bank capital flows	**6,454**	**4,185**	**942**	**5,127**
Memorandum item:				
Change in official reserves	3,489	2,384	4,380	6,764

(1) The data for 1987 are partially estimated and do not include transactions in which there was no currency transfer. — (2) Rounding may cause discrepancies.

The summer was marked by strong exchange market pressures that lasted until mid-September. Data on capital outflows in those months, now available in disaggregated form, appear to confirm that the most volatile component of Italy's external liabilities is bank indebtedness. In July and August, in accordance with an outflow of official reserves totalling 6,134 billion lire, the Italian banking system's net external debtor position diminished by 5,233 billion as a result of a decline in foreign currency borrowing of 2,968 billion lire, a contraction of net lira liabilities with non-residents of 1,077 billion, and an expansion of residents' foreign exchange accounts of 825 billion. Substantial pressure came also from the non-bank financial components. Foreign disinvestment from the Italian financial market

Italian exchange regulations as of 1st October 1988

Law 599, which was passed by Parliament in September 1986, enables the Government to issue regulations reorganizing and amending Italian exchange control legislation in accordance with well-defined principles and guidelines. This delegation of authority was put into practice by Presidential Decree 454 of September 1987, which will come into effect on 1 October 1988. After that date, it will only be possible to impose exchange restrictions or prohibitions affecting external economic relations temporarily for the purpose of protecting the stability of the lira in foreign exchange markets or countering threats to balance-of-payments equilibrium (Art. 13 (1)), at times of exchange market pressures (Art. 13 (2)), or in the event of excessive capital inflows (Art. 13 (3)).

This general principle does not apply to certain restrictions that will remain in effect after October 1988. These can be grouped according to the type of operator being regulated.

The UIC's monopoly of foreign currency transactions entails a number of obligations for the banks: to balance their foreign exchange position, to maintain their net external position in accordance with the prescribed terms or limits set, not to open credit lines for non-residents either in foreign currency or in lire, and to observe the restrictions on foreign exchange dealing, that is to say on the conversion of one currency (including the lira) into another via spot, forward or options transactions.

As regards foreign currency lending to residents, banks will no longer be restricted to financing foreign trade transactions. This is consistent with the wide scope allowed to non-banks for external borrowing, which under existing regulations is still restricted as to duration and amount.

The exchange monopoly will entail a number of limitations and obligations for non-banks as well. They will not be allowed to carry out foreign exchange transactions with non-residents nor to hold deposits abroad either in lire or in foreign currency; they will be required to deposit or sell their foreign currency holdings within the statutory time limits and will not be able to hold foreign exchange on deposit with the Italian banking system for longer than the periods laid down for foreign currency accounts.

However, the decree provides for the introduction of general exemptions to these obligations and restrictions in connection with the implementation of the Single European Act and the gradual attainment of European monetary integration.

In addition to the cases relating to the foreign exchange monopoly and other less significant matters such as the transfer and export of payment instruments and the channeling of foreign exchange transactions, restrictive measures are foreseen with regard to the supply of financial products and services by non-residents, even in instances not contemplated by Article 13. In this case, the Minister for Foreign Trade and the Minister of the Treasury are to determine the types of operator permitted, regulate them and lay down restrictions and exemptions.

The revision of Italy's exchange controls was taken a step further in February with the issue of decrees implementing the provisions of Presidential Decree 454. Among other things, these list the types of financial product and service that non-residents can offer to the general public. The supplying of financial products and services other than those listed, even if performed via residents, remains subject to authorization.

The revision that began with the passage of Law 599/1986 will culminate in the issue of a codified law on exchange controls.

amounted to 1,922 billion lire and Italian direct and portfolio investment abroad came to 2,477 billion lire. Leads and lags, reflecting the difference between the balance of trade on a transactions basis (customs data) and the balance on a settlements basis, amounted to about 2,000 billion lire.

With speculative pressures having ceased by the end of September, the fourth quarter saw a massive inflow of reserves. Thus, the September exchange measures were revoked in January 1988 rather than at the end of March as originally scheduled.

In 1987 as a whole, non-bank capital movements, including errors and omissions, gave rise to a net inflow of 1,637 billion lire, as against a net outflow of more than 6 trillion lire in 1986. Foreign investment in Italy was approximately matched by disinvestment, while Italian investment abroad accounted for a net outflow of

7 trillion lire, or nearly as much as that registered in 1986. Net outflows connected with the acquisition of foreign securities amounted to over 3.8 trillion, 1 trillion more than in 1986. The outflow was concentrated in the third quarter while substantial sales in October and November led to net disinvestment of about 50 billion lire in the fourth quarter.

Most Italian financial investment abroad is connected with the activities of Italian investment funds, whose foreign currency portfolios expanded by the equivalent of 3,430 billion lire up to September. The securities purchased include foreign currency bonds issued abroad by the Italian Treasury as well as securities in Eurolire. Subsequently the value of the funds' security holdings in foreign currencies declined as a result of the collapse of share prices on foreign markets.

Loans taken out by Italian operators on international markets generated a net inflow of more than 12 trillion lire despite amortization payments of more than 14 trillion lire on loans contracted in earlier years. The Treasury's indebtedness in foreign currencies expanded considerably. It issued loans on international bond markets of about 5 trillion lire in 1987. The Italian government's foreign debt thus rose to more than $10 billion. This borrowing is consonant with plans to diversify the public debt, with a view partly to limit the debt servicing burden and partly to offset, if necessary, foreign exchange outflows deriving from the currency diversification of residents' financial assets.

In the aggregate, Italy's medium and long-term foreign debt at the end of 1987 was estimated at over 90 trillion lire, 65 per cent of it enjoying state guarantees of repayment or against exchange rate risk. As to the currencies in which the debt is denominated, the share accounted for by the ECU has risen to over 20 per cent, putting it second behind the dollar (25 per cent) and ahead of the Deutschemark (14 per cent).

The trade-weighted exchange rate of the lira was virtually the same at the end of 1987 as it had been at the start of the year. The substantial appreciation against the dollar that occurred chiefly in the second half was offset by a depreciation against the EEC currencies. The changes in the market exchange rate of the lira vis-à-vis the other European currencies were concentrated in three periods: in early January, when market rates anticipated subsequent realignment within the EMS; in May, to facilitate the beginnings of exchange liberalization; and at the end of October in conjunction with the depreciation of the French franc. At the end of the year the lira was below the lower limit of the narrow band, i.e. more than two percentage points below its central rates against the DM and the guilder.

In January and the first half of February of this year, as the dollar strengthened in all the main exchange markets, the lira depreciated by about 7 per cent against the US currency while holding substantially stable against those of the EEC.

Public finances

In 1987 the state sector borrowing requirement net of settlements of past debts came to 113,491 billion lire, compared with 109,557 billion in 1986 (Table 10). It was thus not only above the original target of 100,000 billion lire set in the Forecasting and Planning Report but also higher than the provisional figures produced during the year, despite increased revenue of more than 3,000 billion lire generated by the restrictive measures enacted at the end of the summer. In relation to GDP, however, the state sector's financial requirements were lower than in 1986, falling from 12.2 to 11.7 per cent. This reduction was due almost entirely to the moderate nominal growth in interest payments; net of this item, the ratio to GDP remained virtually unchanged.

Table 10

Selected public finance balances

(billions of lire)

	1986			1987		
	H1	H2	Year	H1	H2	Year
State sector:						
Borrowing requirement, net of settlements of past debts	45,920	63,637	109,557	46,679	69,812	113,491
as a % of GDP			(12.2)			(11.7)
Settlements made in cash	415	191	606	72	60	132
Settlements made in securities	—	—	—	—	421	421
Total borrowing requirement	46,335	63,828	110,163	46,751	67,293	114,044
as a % of GDP			(12.3)			(11.7)
Public sector:						
Borrowing requirement, net of settlements of past debts	44,934	64,861	109,795	47,600	65,847	113,447
as a % of GDP			(12.3)			(11.7)
Settlements made in cash	415	191	606	72	60	132
Settlements made in securities	—	—	—	—	421	421
Total borrowing requirement	45,349	65,052	110,401	47,672	66,328	114,000
as a % of GDP			(12.3)			(11.7)

The overshooting was due to the substantial increase in expenditure, which exceeded the expansion in revenue, itself quite appreciable; in particular, the growth in current expenditure net of interest payments was far higher than planned, outstripping inflation by around 4.5 percentage points, owing to wage settlements in the public sector.

Total revenue increased by half a percentage point in relation to GDP, owing mainly to the measures taken in August; the increase of almost a point in the ratio of tax to GDP was partly offset by the decline in revenue from the building offences condonation.

In addition to the August measures, another factor behind the rise in the tax burden was the emergence of the full impact of increases in taxation enacted in previous years, including the gradual raising of duties on oil products begun in April 1986 at the time of the fall in oil prices, the change in the regulations on the tax treatment of government securities and the reform of the system for granting relief from social security contributions.

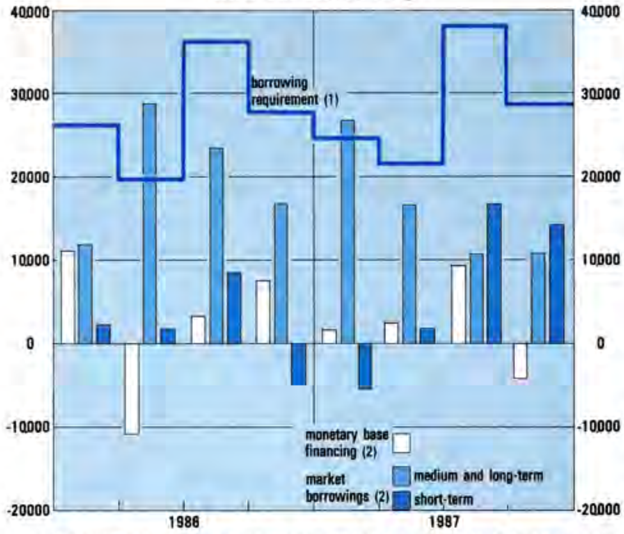
The measures introduced at the end of August by Decree Law 348 (described in detail in *Economic Bulletin* No. 5) were designed to curb pressure on the lira by controlling domestic demand, which was being fueled partly by the rise in the public sector deficit. They provided for an increase in preliminary payments of IRPEG, ILOR due from corporate bodies and tax on interest income, a temporary increase in certain VAT rates and an increase in some indirect taxes.

On the basis of estimates relating to general government, net debt rose from 100,067 billion lire in 1986 to 102,600 billion in 1987; the increase was smaller than that in the state sector borrowing requirement, which was adversely affected by the waning of the effects of the measures taken in 1986 to offset net lending not included in the general government accounts by reducing the liquid funds certain decentralized bodies hold with the banking system.

The borrowing requirement fluctuated sharply during the year (Figure 10); in the first half it was roughly the same as in the same period of 1986, but it rose in the second half of the year. It was held down in the first two quarters by the substantial growth in revenues, which were boosted by the above-mentioned increases in excise duties on oil products, the effects of which had not developed fully in the first half of 1986.

Figure 10

State sector borrowing requirement and its financing



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

The increase in the state's financial requirements in the second half of the year was caused by the acceleration in transfers to social security agencies to finance the increases in certain pensions and disability benefits, by mortgage lending by the Deposits and Loans Fund to first-time home buyers and by the acceleration in issues of Treasury bills, the interest on which is written into the accounts at the time of issue. The continued expansion in the borrowing requirement was curbed in the last few months of the year by the effects of the restrictive measures introduced at the end of August.

Around 88 per cent of the borrowing requirement was financed in the domestic market; market issues of Treasury bills were considerably higher than in 1986, rising from 8 to around 26 per cent of the requirement. Central bank financing declined, however, owing to the increase in Treasury borrowing abroad, which rose from 856 billion lire in 1986 (equal to less than 1 per cent of the borrowing requirement) to 5,888 billion last year (around 5 per cent).

The main items of the public accounts

Provisional data show total general government revenues and expenditures as having increased by respectively 9.8 and 8.2 per cent (Table 11). As mentioned, the expenditure item to have grown most was wages and salaries, up 12.4 per cent. About half of this increase can be attributed to the effects of the wage agreements reached for the period 1986-88. These covered most public sector employees and also involved the disbursement in 1987 of the share of the total rise referring to 1986 (approximately 30 per cent). Intermediate consumption also recorded a pronounced rise (9.1 per cent), as did production subsidies (11.3 per cent), influenced respectively by the expenditure for the referendums and the general election held during the year and the financing of the deficits of the Post Office and the State Railways, whose tariffs were not raised.

Spending on social services, which rose by 8 per cent, was pushed up, on the one hand, by the higher outlays for pensions consequent on the increases granted to remove distortions depending on the year of retirement and the gradual introduction of the other improvements foreseen by the measures adopted in 1985 and, on the other, by the abolishment of the charges for certain health services (the revenues generated by such charges being included in the accounts as deductions from the relevant expenditure items). In the second part of the year, disbursements were swollen by the back payment of the balances due in respect of the topping up to the minimum levels of separate entitlements for beneficiaries receiving more than one pension, in conformity with a judgement of the Constitutional Court. Other expansionary factors were the biennial revaluation of the annuities paid by the Industrial Accidents Insurance Institute (starting in July pre-1985 benefits increased by 18 per cent, while those in respect of 1985 rose by around 6 per cent) and the easing of the means test for family allowance eligibility. As regards the latter, a particularly significant effect was produced by the approximately 70 per cent increase in the income threshold for the allowances for a first child and dependent parents. By contrast, restrictive effects were produced by the 4 per cent target inflation rate used for the automatic revaluation of pensions and the downturn in the disbursements of the Wage Supplementation Fund as a result of the favourable performance of the economy.

Table 11

General government income statement

(billions of lire; % changes)

	1986	1987	1986/1985	1987/1986
EXPENDITURE				
Wages and salaries	104,068	117,000	9.3	12.4
Intermediate consumption	42,164	46,000	9.8	9.1
Social services	153,447	165,700	10.2	8.0
Production subsidies	26,405	29,400	24.6	11.3
Debt interest	75,685	76,500	15.7	1.1
Other	12,387	13,700	11.1	10.6
Total current expenditure	414,156	448,300	11.7	8.2
as a % of GDP	*46.3*	*46.1*		
Investment	29,955	32,000	1.4	6.8
Investment grants	15,915	17,500	21.2	10.0
Other capital expenditure	669	800	−87.1	19.6
Total capital expenditure	46,539	50,300	−2.8	8.1
Total expenditure	**460,695**	**498,600**	**10.1**	**8.2**
as a % of GDP	*51.5*	*51.3*		
REVENUE				
Direct taxes	116,051	133,000	9.4	14.6
Indirect taxes	81,961	91,000	12.5	11.0
Condonation of building offences	4,223	1,140	—	−73.0
Social security contributions	124,764	135,000	13.0	8.2
Other	31,036	33,060	12.3	6.5
Total current revenue	358,035	393,200	12.9	9.8
Capital revenue	2,593	2,800	−1.4	8.0
Total revenue	**360,628**	**396,000**	**12.8**	**9.8**
as a % of GDP	*40.3*	*40.8*		
Net borrowing	**100,067**	**102,600**	**1.4**	**2.5**
as a % of GDP	*11.2*	*10.6*		
Borrowing net of debt interest	24,382	26,100	−26.7	7.0
as a % of GDP	*2.7*	*2.7*		

Source: Isco.

The small growth in debt interest (1.1 per cent) was the result of the fall in interest rates during 1986 and the early part of 1987, which almost completely offset the effect of the increase in the public debt and the greater proportion of government borrowing in the form of Treasury bills (the interest on which is included in the accounts at issue). The decrease in interest rates had a greater effect on the interest in respect of medium and long-term securities since it is included in the accounts when coupons are actually paid.

The increase in general government revenues was positively influenced by the expansion in tax receipts, with the central government's share rising to 230.5 trillion lire (net of collection commissions and accounting transactions with the regions but gross of the part accruing to the EC and VAT refunds), an increase of 11.2 per cent. If account is taken of the delays that led to some 1985 revenues being included in the 1986 accounts, the increase was 12.4 per cent.

The rise in personal income tax receipts was positively influenced by the amounts withheld on wages and salaries, which had benefited in 1986 from the relief granted in connection with the revision of the IRPEF rate structure. The 15.5 per cent rise in this item was the result of the increase in the tax base, fueled by the renewal of wage agreements (which also involved the disbursement of back payments), and of fiscal drag. This result was partially offset by the 10.6 per cent fall in the payments in settlement of the tax due on the other forms of personal income produced in 1986. These receipts were depressed by the relief granted in connection with the aforementioned change in the rate structure of the tax. The small increase in the total amount due on such income was reflected in a correspondingly small rise in payments on account (2.6 per cent).

The rise in self-assessed local income tax (ILOR) amounted to around 16 per cent. The increase in taxable income reflected the revision of the coefficients used to revalue imputed property income and, for entrepreneurial income, the more severe treatment of interest earned on government securities (initially through the restrictions on the deductibility of certain costs and subsequently through the direct taxation of the interest in question). It resulted in a 12 per cent rise in payments in settlement and an even larger gain of 18.4 per cent in those on account.

Corporate payments of direct taxes (IRPEG and ILOR) jumped by 25.7 per cent. The improvement in company profitability recorded in 1986 (confirmed by a substantial increase in the withholding tax on dividends by nearly 35 per cent), together with the increase in the tax rate on income from government securities, boosted the flow of self-assessed payments in settlement by around 24 per cent for both taxes. This increase, coupled with the rise in the rate of payments on account (from 92 to 98 per cent of the previous year's total liability), caused the corresponding receipts to rise by over 26 per cent.

By contrast, the increase in the payments on account of the tax on bank interest from 90 to 100 per cent failed to offset the effect of the fall in interest rates that had occurred during 1986. Consequently, this revenue declined by 14 per cent in 1987. The loss was made good by the gradual extension of the tax on interest income from government securities. The withholding tax —charged at the rate of 6.25 per cent until September, when it was raised to 12.5 per cent — produced over 1,800 billion lire, compared with about 320 billion in 1986, thereby causing the total receipts from the taxation of interest income to remain virtually unchanged.

Indirect tax receipts grew by 10.4 per cent, the result of a large increase in the revenues generated by VAT and the excise taxes on oil products, while the receipts from other specific taxes showed little change. Ministry of Finance data based on assessments show an 18 per cent increase in the first eleven months of last year. Including the amounts assessed by the customs authorities but exempt (under export incentive schemes), amounts refunded and the share accruing to the EC, gross VAT revenues are found to have risen by 12.3 per cent. This rate of growth is nonetheless faster than that of the broader macroeconomic indicators, a result that can be attributed at least in part to the temporary surtax imposed on some consumer goods at the end of August. The tax assessed by the customs authorities rose by 8.9 per cent, one point faster than the rate of increase in imports. A contributory factor was the shift in the composition of the flow of merchandise towards final goods. Domestic VAT revenues expanded by 14.8 per cent. This large increase, which was well in excess of the growth in domestic consumption, was influenced by the fall in the value of imports in 1986 owing to the interval between the receipt of taxes levied on final sales and the amounts collected on account by the customs authorities.

Among the other commercial taxes, there was a very large increase in registry tax revenues (around 25 per cent), fueled by the reduction in the facilitations available to first-time house buyers and the new assessment regulations (contained in the codified law that came into effect on 1 July 1986), which reduced the number of disputed cases. In the last few months of the year stamp tax receipts also accelerated as a result of the higher rates introduced by Decree Law 391 of 24 September 1987.

Excise taxes on mineral oils yielded 13.5 per cent more in 1987. The average rate applicable to oil products continued to rise as a result of the increases approved in 1986 to compensate for the fall in oil prices and in 1987 as part of the restrictive package introduced at the end of the year. Compared with 1986, the rate on petrol increased by 3.9 per cent, while that on diesel oil went up by 30.2 per cent. The large increase in the latter, which was initiated at the time of the collapse in oil prices, caused the share of this tax in the total to rise from around 23 per cent in 1985 to over 35 per cent last year.

In effective terms, the increase in social security contributions was more than one percentage point higher than that in private sector earnings. This reflected the payments made in connection with the possibility of regularizing positions and the reduction in the amount of relief granted in respect of such contributions. The latter step was combined with a switch from pro rata to ad personam relief.

The money and financial markets

The money and credit aggregates and monetary policy

The package of measures enacted in September (described in the previous *Bulletin*) and the subsequent conduct of monetary policy succeeded in overcoming the exchange rate difficulties and financial market tensions that had emerged during the summer, until the economic picture and the conditions for Treasury financing improved.

Table 12

Total domestic credit

(percentage changes)

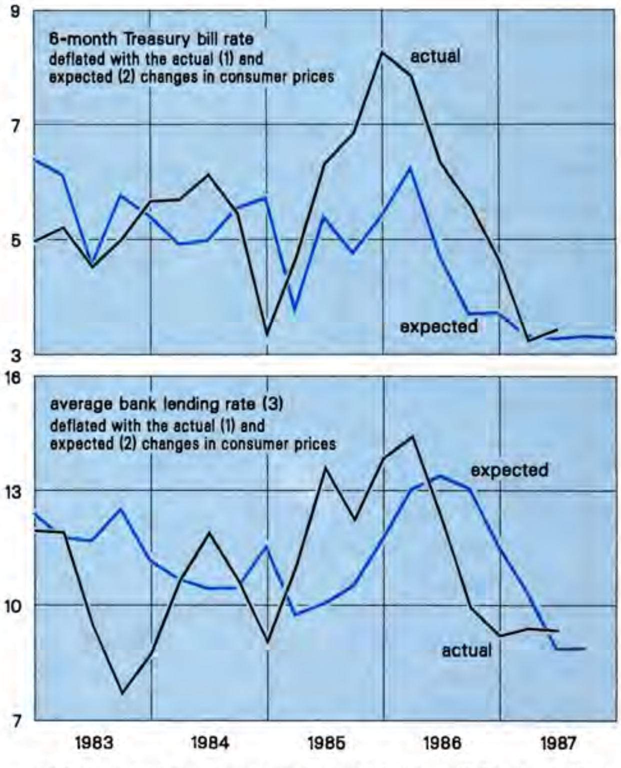
	1986	1987	
	Year	Year	Objective
Bank lending (1)	9.6	8.2	
Special credit institution lending.................	12.8	12.9	
Net bond issues	21.6	12.1	
Non-state sector financing	11.4	10.0	5-9
State sector domestic borrowing requirement (2)	17.6	14.9	
Total domestic credit (1) ...	15.1	13.0	11

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

After the imposition of the lending ceiling, bank lending to the non-state sector slowed sharply, bringing growth during the year to 8.2 per cent, as against 9.6 per cent in 1986 (Table 12). In particular, the pace of growth of lira lending decreased by more than was required by the ceiling. The ease with which banks complied with the ceiling confirms that a large part of the demand for credit during the summer was of a speculative nature, connected with exchange rate expectations, and that with the September measures this component faded away. Bank lending rates actually rose only moderately and temporarily. Minimum lending rates moved up from 11.8 per cent in August to 12.5 per cent in October, thereafter falling back to 12.3 per cent in December. Real interest rates on bank loans remained lower than those prevailing in the last few years (Figure 11). This indicates that the growth path prescribed by the ceiling is consistent with the economy's need for financing.

Figure 11

Real interest rates (1)



(1) Estimated values of interest rates net of inflation. — (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. The deflator of the lending rate is based on an index of manufacturing producer prices; the last observation is partly estimated. — (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.

Including lending by the special credit institutions and corporate bond issues, credit to the non-state sector expanded during the year by 10 per cent, thus only slightly exceeding the upper limit of the target range despite a sharp contraction in firms' raising of equity capital that was no more than partially offset by increased borrowing abroad. Given the 14.9 per cent rise in domestic borrowing by the state sector, total domestic credit increased by 13.0 per cent, less than the 15.1 per cent recorded in 1986 but still two points higher than forecast. The increase in total domestic credit as a proportion of GDP dropped from 17.0 to 15.5 per cent.

Table 13

Monetary variables

(percentage changes on an annual basis)

	1986	1987 (1)	
	Year (2)	Year	Target range
Bank reserves (3)	5.0	8.9	
Monetary base (3)	5.8	9.2	
Bank deposits	8.9	6.7	
Money supply net of CDs (M2A)	8.1	6.9	
Money supply (M2)	9.4	8.3	6-9

(1) Provisional. — (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) Corrected for the change in the compulsory reserve ratio.

M2 grew by 8.3 per cent compared with 9.6 per cent in 1986 (Table 13) and remained within the target range. After a deceleration in the third quarter connected with a slowdown in deposit growth, the expansion of M2 was restrained. Given the limits on lending, the banks did not adjust their deposit rates as yields on government securities rose. Only CDs, thanks in part to the inception of a secondary market for them, showed a considerable increase. M2A (which excludes CDs) thus rose less than M2, increasing by 6.9 per cent to December. The importance of the most liquid components in the total increase of financial assets began to rise again, to 53.2 per cent in the first eleven months as against 33.7 per cent in the same period of 1986, the most important factor being the increase in Treasury bills (Table 14). Among the other financial assets, there was a relative shift away from investment fund units, whose contribution to the total flow was almost nil (0.4 per cent through November as against 25.5 per cent over the first eleven months of 1986).

Table 14

Financial assets of the private sector (1)

(percentage composition)

	Stocks		Flows	
	Dec. 1986	Nov. 1987	Jan-Nov 1986	Jan-Nov 1987
Money (M2)	55.0	52.8	33.9	34.5
of which: bank deposits	44.6	42.6	25.6	25.9
Treasury bills and acceptances	12.8	13.5	−0.2	18.7
Medium-term securities	23.8	26.6	38.3	46.3
Investment fund units	6.0	5.0	25.5	0.4
Other	2.4	2.1	2.5	0.1
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.

The substantial degree of success in meeting the targets was due largely to the management of the monetary base, which grew by 13.9 trillion lire in 1987, or 9.2 per cent, thanks to the deceleration in the last part of the year. For the year as a whole, the monetary base financing of the Treasury increased by 9.4 trillion lire, as against 11.0 trillion in 1986, and declined from 10.0 to 8.2 per cent of the borrowing requirement (Table 15). This result was obtained despite a diminution from 79 to 75 per cent in the share of the borrowing requirement covered by domestic securities issues. Instead, it was brought about by increased resort to foreign borrowing, which contributed to a strong rise in monetary base creation via the external channel, and by an increase in PO deposits, which amounted to 13.2 trillion lire, or nearly 2 trillion more than in 1986. Among the Treasury components of the monetary base, there was significant recourse (over 9 trillion lire) to the Treasury's current account with the

Bank of Italy; at the end of the year the unutilized portion of this facility was just 1 trillion lire.

Table 15

Monetary base

(changes in billions of lire)

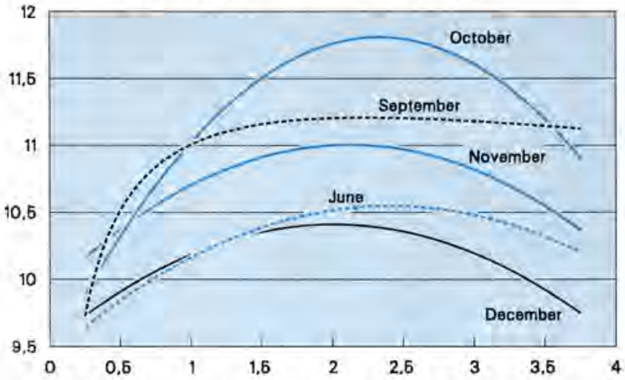
	1986 (1)	1987 (2)	
	Year	Oct-Dec	Year
Sources			
Foreign sector	3,543	6,412	6,740
Treasury	10,995	−4,178	9,403
Borrowing requirement	*110,163*	*28,845*	*114,044*
(excluding settlements of past debts)	*(109,557)*	*(28,540)*	*(113,491)*
Outstanding securities excluding BI	*−87,563*	*−18,958*	*−85,585*
Other financing (3)	*−11,606*	*−14,065*	*−19,056*
Refinancing of banks	−4,334	459	−709
Other sectors	−1,004	4,849	−1,542
Total	**9,200**	**7,542**	**13,892**
Uses			
Currency in circulation	3,143	5,204	4,611
Bank reserves	6,057	2,338	9,281
Compulsory reserves	*9,022*	*1,332*	*8,739*
Deposits against loans in excess of ceiling	—	*657*	*657*
Liquidity	*−2,965*	*349*	*−115*

(1) The figures are distorted by the effects of industrial action by Bank of Italy staff at the end of 1985. — (2) Provisional. — (3) Includes PO deposits, foreign loans and other minor items.

In October and November the inflow of capital from abroad induced by the September measures was so large that for the first time since July the central bank had to mop up excess liquidity with repurchase agreements. Even so, bank liquidity was easier in the last months of the year, as is shown by the movement of the overnight rate (see insert). Despite the improved situation on the foreign exchange market, sales of medium-term securities remained sluggish owing to continuing secondary market strains caused by uncertainty over interest rates and by a restructuring of portfolios, partly for fiscal reasons (see *Economic Bulletin* No. 5). Net issues of Treasury credit certificates and bonds in the fourth quarter were practically negligible, while those of Treasury bills and ECU-denominated bonds amounted to 8.1 trillion lire. Judging that the shift in investor interest away from medium and long-term issues was transient, the Bank of Italy intervened in the secondary market with support measures to help restore more orderly conditions.

Figure 12

Time/yield curves in 1987 (1)



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

Towards the end of the year the moderation of inflationary expectations and the reduction in interest rates in the leading industrial countries had a positive impact on the Italian bond market. In particular, the expectations of exchange rate stability became firmer, while expectations of higher interest rates were progressively outweighed by those of a decline. As the year came to a close the pressures in the secondary market eased and prices began to recover. This was reflected in the time/yield curve: the rise in October, mainly for maturities of about two or three years, was reversed in November, when the curve flattened somewhat. In December, yields declined further over the entire range of maturities and the curve returned to the pattern it had had in June (Figure 12); demand for government securities showed signs of recovery. For Treasury bills, in particular, at the last auction in December and those of January 1988 this development led to an appreciable decline in interest rates, especially for twelve-month bills. The net after-tax yield on twelve-month bills at the end of January was 9.12 per cent, i.e. about 140 basis points lower than in October and nearly the same as at the start of 1987. The volume of Treasury credit certificates subscribed in January

Bank of Italy intervention in the money market

Following the exchange and monetary measures of mid-September, which helped check the wave of speculation against the lira, conditions in the money market eased. This was due primarily to a huge reflow of foreign exchange, which created 2 trillion lire in new liquidity in October. The overnight rate, which had risen to almost 14 per cent around mid-September, eased to around 11 per cent in late October. The banks' free reserves averaged about 1 trillion lire higher in October than in September, rising to 5.4 trillion lire. In the first ten days of the month the banking system's debt with the Bank of Italy was extinguished. The expansionary impulses generated by the foreign sector were added to those of Treasury borrowing needs, which were larger than expected, and there was still some difficulty in placing government securities. The Bank of Italy used open market operations to curb the creation of liquidity. These operations absorbed 2.8 trillion lire of monetary base in October, 1.1 trillion of it via outright sales.

In November, when the Treasury's borrowing requirement was substantial, market demand for securities fell below the volume offered. At the end-November auction, some 900 billion lire of three-month Treasury bills went unsubscribed notwithstanding purchases by the Bank of Italy. At the same time, the external channel was strongly expansionary, partly as the result of a Euroyen loan to the Treasury equivalent to 2.7 trillion lire. The Bank adjusted its open market operations to the need to offset these expansionary impulses, selling 1.9 trillion lire of securities under repurchase agreements and 2.2 trillion lire outright. Conditions in the very short-term interbank money market were easy especially in the first ten days of the month, when free reserves approached 6 trillion lire. The overnight rate fell to 6.4 per cent at this time, but rose to about 10 per cent for the rest of the month, in line with its level a month earlier.

In December the Treasury borrowing requirement was again higher than foreseen, especially in the last few days of the month. However, there were signs of improvement in the market for government securities. At the beginning of the month, market applications for five-year credit certificates came to 3.4 trillion lire, a somewhat overstated figure aimed at avoiding the effects of allotment in the light of the prior announcement of a comparatively small issue of 1 trillion lire. At the Treasury bill auction at end-December demand exceeded the very large issue of 23.5 trillion lire. Tender rates declined, especially for twelve-month bills, whose net after-tax yield fell to below 10 per cent. Bank of Italy intervention was relatively modest. Open market operations injected 1.4 trillion lire in liquidity, with temporary purchases of 1.6 trillion lire and outright sales of 200 billion. The banking system's net reserves, which had been heavily negative for the first twenty days of the month because of the public's very strong demand for cash, expanded appreciably as the year drew to a close, in connection with the maturing

was considerably larger than that originally offered, even though the after-tax yield at issue of 10.58 per cent was some 60 basis points lower than in December. Nevertheless, the average maturity of the public debt, which was equivalent to almost four years at the end of May, had now declined to just over three-and-a-half years. In February the demand for Treasury bonds and credit certificates weakened again and short-term issues increased.

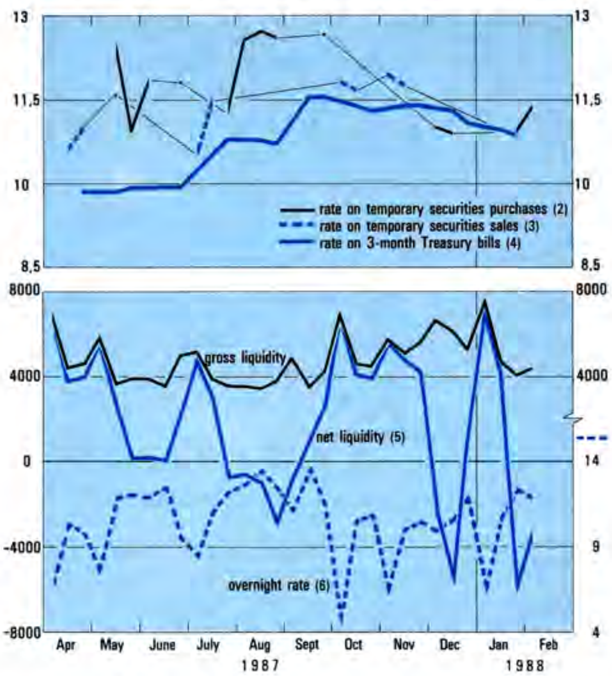
The demand for credit and the activity of credit intermediaries

The twelve-month growth rate of bank lending in lire, after plunging from 14.9 per cent in August to 9.6 per cent in September, declined progressively to reach 7.1 per cent in December. At all times there was substantial scope for additional lending without infringing the ceiling, the unused margin amounting to 5.2 trillion lire at the end of the year. Since the impact of the measure varied from bank to bank, however, some did exceed the prescribed limits. Non-interest-bearing deposits placed with the Bank of Italy in respect of those excesses reached 650 billion lire at the end of December. In conjunction with the deceleration in lira lending, the twelve-month change in foreign currency loans swung round from −0.7 per cent in August to 19.5 per cent in December.

After the introduction of the ceiling on bank loans, the absorption of the lending bulge *of a large volume of temporary financing. Although Treasury disbursements helped bolster liquidity at this time, the banking system was nevertheless obliged to resort to fixed-term advances, which the Bank of Italy made available on penalty terms. As a result the overnight rate, which had been around 10 per cent early in the month, rose to around 12 per cent at the close of the year.*

In January a small cash surplus of the Treasury and heavy net sales of securities on the primary market more than offset the liquidity effects of continued inflows of foreign exchange. The market applications for Treasury credit certificates exceeded an initial issue of 5 trillion lire (announced in advance, as in December) that was then enlarged to 7 trillion. Net open market operations by the Bank of Italy created 6.4 trillion lire of monetary base: outright sales mopped up 2.8 trillion lire, while temporary purchases injected 9.2 trillion. In the second part of the month temporary finance to the banking system rose sharply in connection with compulsory reserve requirements. Temporary financing in terms of repurchase agreements rose to a total of 22.5 trillion lire and carried yields of 11 to 12 per cent. The banking system also made use of fixed-term advances on moderately penal terms. The rapid contraction of net liquidity in the final ten days of the month was accompanied by a sharp increase in the overnight rate, which rose from the low levels recorded early in the month to over 12 per cent.

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.

connected with financial operations was accompanied by a reversal of the trends in the destination of loans observable in the months preceding the ceiling. The sectoral breakdown reveals that the twelve-month growth rate of lending to financial companies and the holding companies of the leading industrial groups plummeted from more than 40 per cent in July to 7.6 per cent in November. This in turn was reflected in a more than proportional deceleration in lending by the larger banks, which again began to lose market share to smaller credit institutions, and in the reduction in the share of loans made at less than the prime rate, from 50.0 per cent at the end of the second quarter to 47.6 per cent at the end of the third. Lending to industry was much less affected by the measures. Nonetheless, its twelve-month growth rate declined from 8.4 per cent in June to 5.0 per cent in November, largely because of the slowdown in industrial production and the running down of stocks of finished goods in the second half.

In January bank lending in lire accelerated sharply, overshooting the ceiling for growth by around 1.5 trillion lire.

The growth rate of bank deposits, which on a 12-month basis fell from 11.9 per cent in June to 6.7 per cent in December, remained moderate even after the stock market crisis. As already noted, certificates of deposit were the only instrument to record a fast rate of expansion (48.1

per cent). This increase related mainly to 3-month certificates issued by the major banks, which created a secondary market for this type of financial asset.

The figures for the first nine months of 1987 bring out more clearly the deterioration of banks' profit and loss accounts as compared with the first six months. Banks' profitability was lower than that for the first three quarters of both 1986 and 1985, when it was unaffected by the ceiling on lending. By comparison with 1986 there was a reduction of net interest income in relation to total resources, as well as in the contribution of securities trading, which was unfavourably influenced by capital account losses on the financial market and by a falling off in the placing of new securities issues. This development affected all types of credit institutions, but most of all the larger banks, which are by tradition more active in securities operations. A slight increase in staff costs as a share of total resources also contributed to reduce operating profits.

The sustained expansion in lending by special credit institutions continued during the last part of the year, with a 13.4 per cent increase in loans against 12.4 per cent in 1986. Lending activity was brisk in all sectors, except in the case of public works financing, which has been virtually at a standstill for some years as a result of more restrictive policies governing local authorities' indebtedness and greater recourse to the Deposits and Loans Fund.

The expansion in intermediation by real estate credit institutions was especially strong, with loans accelerating steadily. The 12-month growth rate climbed from 17.6 per cent in September to around 21 per cent in December (against 13.1 per cent in 1986). Given the modest increase of investment in building, this phenomenon would seem to be related to the spreading effect of lower interest rates on the demand for real estate loans.

Lending by industrial credit institutions, whose activity had increased around mid-year, seems not to have been significantly affected by the introduction of the ceiling. During the last two months of 1987, however, there was a slowdown in the 12-month growth rate of their loans, which fell from 13 per cent in October to 11.7 per cent in December. Following guidelines laid down by the Bank of Italy, loans with maturities of up to 18 months — traditionally those which most easily substitute for bank credit — decelerated markedly, with the 12-month growth rate falling from 33 per cent in June to 16 per cent in December (57 per cent in 1986, taking into account operations linked to the issue of convertible bonds). The overall expansion of loans during the year, while lower than in 1986 (14.6 per cent), was nonetheless considerable, reflecting the continuing buoyancy of investment in machinery, equipment and transport vehicles. This trend in investment expenditure also favoured a strong growth in loans by special credit institutions to leasing firms, which in the first nine months of the year expanded at about the same rate as in 1986.

With regard to fund-raising, there was an appreciable increase in bonds outstanding (around 12 per cent against 7.5 per cent in 1986), whereas certificates of deposit expanded only modestly (around 6 per cent against 10.6 per cent in 1986), partly because of the limited scale of short-term operations. In addition to increasing their fund-raising abroad, partly in connection with the rise in buyer credit to foreign countries, the special credit institutions financed some of their investment activities by cutting back their securities portfolios, in particular by reducing holdings of Treasury credit certificates.

The financial market

The dominant features of the financial market during the second half of 1987 were the stock market crash and the tensions on the government securities market.

After their collapse in October, share prices showed no signs of recovery. The general index of the Milan Stock Exchange, which had fallen 15 per cent in October, declined by a further 14 per cent over the next three months. In mid-February 1988 the average price of shares on the Milan Stock Exchange was 49 per cent below the record high reached on 20 May 1986, thereby falling back to the average levels for January of that year. Percentage losses on savings (non-voting) shares during 1987 were virtually the same as for ordinary shares, although during the rising phase of the market between end-1985 and August 1986 the increase in their prices had, by contrast, been less than half that of ordinary equities.

The capitalization of securities listed on the Milan Stock Exchange fell from 190 trillion lire at end-December 1986 to 133 trillion at end-January 1988, despite increases of capital and new listings (23 in 1987, bringing the total of firms quoted to 225).

The drop in share prices occurred at a time when the outlook for firms' profitability was still favourable. As a consequence of the fall in prices and of the rise in profits forecast for 1987, the estimated net profits for a sample of listed companies expressed as a proportion of the year-end stock market capitalization for the same companies rose from 3.1 per cent in 1986 to 5.3 per cent, thus exceeding the 1985 figure of 4.3 per cent.

A rising cost of capital, which probably resulted from an increase in the risk premium demanded by investors, was reflected in the postponement of a number of share issues. For the total of listed companies new issues amounted to only 900 billion lire in the last quarter, against 5.2 trillion in the same period of 1986. Over the whole year share issues by listed companies, including matching issues by holding companies, amounted to around 6.4 trillion lire, a marked reduction by comparison with 1986 (14.8 trillion), though still higher than the average for the years 1981-85. Issues of savings shares accounted for approximately 1 trillion of total gross issues: they, too, expanded less than in 1986 (6.4 trillion).

Capital increases by banks totalled around 2 trillion lire, while those of insurance companies exceeded 500 billion. The concentration of issues was accentuated: placings by the four leading industrial groups accounted for 74 per cent of the total, whereas in 1986 the same groups had issued 53 per cent of new shares.

Demand for shares fell considerably: in particular, investment funds, which had been a driving force in the market in 1986, reduced their purchases. In October and December subscribers not only disinvested on a net basis but also tended to shift their investments from share-based and mixed funds to bond-based funds. Consistent with this behaviour, the investment funds, which in the preceding months had acted in a counter-cyclical manner, unloaded shares at the same time that prices fell sharply.

At the end of December net assets of Italian investment funds stood at 59.4 trillion lire, representing a fall of 5.6 trillion since the beginning of the year; this was due to the drop in prices, especially those of shares, since new subscriptions substantially offset redemptions. Fund-raising was brisk during the first part of the year, but turned negative from August onwards. The weakness of the stock market and expectations of interest rate increases led households to channel investments primarily towards short-term investments, particularly Treasury bills.

Thanks to a portfolio diversification chiefly into government securities, share price trends had only a limited impact on investment fund yields which, overall, were negative for the year (−6.7 per cent, against 24.6 per cent in 1986). Nonetheless, considering the results achieved by these funds since their introduction in June 1984, they have provided a higher yield than Treasury credit certificates as a whole, but a lower one — though with much less variation — than shares (Figure 13).

Figure 13

Securities market indices of capitalization

(30 June 1984 = 100; end-of-month figures)

During the first nine months of the year the portfolio composition of investment funds had recorded a lower proportion of lira bonds and a higher one of foreign currency securities — a situation that remained substantially unaltered by the events of October: the sole exception was foreign currency bonds, which were the only category to increase, even in absolute terms (Table 16). Over the last months of the year the funds continued to sell government securities as an offset to deposit withdrawals.

Table 16

Portfolios of Italian investment funds

(billions of lire)

	Lira securities			Foreign currency securities		Total
	Govern-ment (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
Oct. ...	32,671	5,345	14,449	2,345	3,175	57,985
Nov. ...	32,128	5,326	14,787	2,618	2,811	57,670
Dec. ...	31,569	5,254	13,561	2,889	2,608	55,881
1988 — Jan. ...	30,773	5,204	12,670	2,804	2,631	54,082

(1) Includes Treasury bills.

Net issues of government securities fell during 1987 to 84.9 trillion lire, compared with 97.5 trillion in 1986 (Table 17). The largest decrease was in Treasury bonds (13.4 trillion against 35 trillion in 1986), which in the first months of the year had been in heavy demand because of expectations of a reduction in interest rates: more than 80 per cent of these instruments were placed in the first six months of 1987. Treasury bills, by contrast, accounted for almost 30 per cent of net issues over the year, or 25.2 trillion lire (against 9.7 trillion and 10 per cent in 1986). Treasury bills in ECUs to the amount of 2.3 trillion lire are included in these issues of short-term securities. Issues of Treasury certificates also fell significantly (35.3 trillion against 53.5 trillion in 1986) and, like Treasury bonds, were placed primarily during the first part of the year.

Table 17

Government securities (1)

(billions of lire)

		Bills (2)	Credit certifi-cates	Bonds	Credit certifi-cates in ECUs (3)	Total
		Gross issues				
1985		256,281	97,209	17,288	3,367	384,553
1986		265,865	79,255	53,276	2,079	400,475
1987		316,110	55,480	18,890	590	403,854
1986	H1	128,912	35,006	31,026	2,284	197,228
	H2	136,953	44,249	22,250	−205	203,247
1987	H1	133,705	41,930	15,040	576	201,720
	H2	182,405	13,550	3,850	14	202,134
		Net issues				
1985		13,181	78,567	3,973	3,367	106,102
1986		9,699	53,534	35,036	2,079	97,460
1987		25,171	35,267	13,409	590	83,290
1986	H1	−1,639	31,232	18,524	2,284	49,053
	H2	11,338	22,302	16,512	−205	48,407
1987	H1	−5,436	24,834	10,852	576	38,969
	H2	30,607	10,433	2,557	14	44,321

(1) The 1985 figures include the securities issued in settlement of debts amounting in net terms to 9,923 billion lire. Those for 1987 include the 2,311 billion lire of Treasury bills denominated in ECUs that were issued in the second half.

The fall in prices of Treasury credit certificates from June onwards hampered the placement of this type of instrument, traditionally favoured on account of its indexation to short-term rates, which is intended to reduce the risk of capital account losses. Price trends for these instruments, which were influenced by a number of factors such as sales by investment funds during the summer, also revealed the operational limits of the secondary market for government securities in Italy. In addition to stabilizing measures, such as Bank of Italy intervention on the stock exchange to support prices, steps have been taken to reform the secondary market and enhance its efficiency (see separate article, p. 45).

Apart from the Treasury, other major issuers included the special credit institutions, which issued bonds totalling 11.5 trillion against 6.8 trillion in 1986: these were placed notwithstanding the loss of support deriving from portfolio investment requirements.

Yields on bonds, which reached a peak for the year in October, have since tended generally to fall, as a result of the stabilization of inflation and improved expectations regarding interest rates. The preference of operators for shorter maturities persuaded the Treasury to offer Treasury bills, bonds in ECUs and new issues of credit certificates, first with a maturity of 7 years and later of 5 years with six-monthly coupons.

The stabilization of inflation was also reflected in increased optimism regarding the lira/ECU exchange rate, as shown implicitly by the spread between yields on 12-month Treasury bills and on Treasury bonds in ECUs: this fell from around 2.4 per cent in October to around 1.7 per cent in January.

Yields on non-government bonds on the secondary market were only partially affected by the changes in expectations. The average net yield on those issued by the industrial credit institutions, in particular, stayed above 11 per cent between October and December, while the average net yield on Treasury bonds fell over the same period by 90 basis points to 10.5 per cent.

Short-term prospects

The international economy

After the strong revival of worldwide demand in the second half of 1987, the rate of growth in the industrial countries is likely to slow down to between 2.3 and 2.5 per cent in 1988, according to the latest forecasts from international organizations, which take account of the effects of the stock market crisis of last October (Table 18). Though the expected rate of growth is below that forecast before the fall in share prices, the present predictions are slightly more optimistic than those made in the immediate aftermath of the crisis and reflect an adjustment of estimations of the possible negative "wealth effects".

However, the high degree of uncertainty hanging over the international scene also shows up in the forecasts, especially as regards growth. Recent developments in the US economy have contributed to this uncertainty; on the one hand, growth in the United States in the final quarter of 1987 far exceeded the most optimistic forecasts, while on the other the leading indicators in December signalled a downturn for the third consecutive month.

Given the persistence of current account disequilibria among the three largest OECD countries, macroeconomic developments will continue to be determined primarily by the economic policies of the major countries and the performance of the dollar. The fiscal measures taken in 1987 — restrictive action in the United States accompanied by expansionary moves in Japan and, to a lesser extent, in Germany — reflected more clearly than in the past the need to shift demand growth from countries with a current account deficit to those in surplus in order to speed up the elimination of international disequilibria. It seems unlikely that this trend will continue in 1988, however; in the United States the measures approved in November will probably have the effect of keeping the Federal budget deficit at the 1987 level, while in the other two major countries the fiscal impulse foreseen for 1988 appears to be only moderately expansionary in Japan and inadequate in Germany.

Although monetary conditions will presumably remain accommodating in most of the industrial countries, the strong acceleration in the monetary and credit aggregates in the last two years suggests that the scope for a further easing is now limited.

In the case of the United States, the uncertainty about the expected growth in output in the industrial countries in 1988 is reflected in a difference of more than half a percentage point between the various forecasts. Domestic demand in the United States is expected to increase by around one point less than output; the opposite should occur in both Germany and Japan, thus helping reduce external disequilibria in volume terms. Growth in Japan is predicted to be 2 points higher than in Germany in 1988. Overall, world trade is expected to expand by about 4 per cent. Production trends in the various countries are likely to affect unemployment, albeit slightly; the unemployment rate will probably decline further in the United States (from 6.3 per cent in 1987 to 6 per cent in 1988) but continue to rise in Europe (from 10.8 to 11 per cent).

Growth is expected to accelerate in the developing countries; in oil-exporting countries output will probably expand at a rate of almost 3 per cent, after three years of slight contraction.

Given wage moderation, stable oil prices and no more than modest annual average increases in the prices of non-energy raw materials, inflation in the industrial countries should show little change compared with the results recorded in 1987. In the United States, however, it is likely to be above the average for the other industrial countries owing to the depreciation of the dollar.

There are no pronounced differences in the international organizations' estimates of external current account positions; the payments

Table 18

Forecasts of the main international macroeconomic variables

(percentage changes on previous year)

	1987	1988		1987	1988
GDP (1)			**Current balances** (2)		
Industrial countries	2.8	2.3-2.5	Industrial countries	−46	−50
of which:			*of which:*		
United States	2.9	2.0-2.6	United States	−156	−134
Japan	3.5	3.5-3.7	Japan	87	81
Europe	2.3	1.8-2.0	Europe	40	20
Germany	1.7	1.5-1.6	Germany	44	41
Non-oil LDCs	4.4	4.8	Non-oil LDCs	−9	−15
Oil-exporting LDCs	−0.9	2.7	Oil-exporting LDCs	−11	−4
Consumer prices (3)			**Unemployment rate** (4)		
Industrial countries	3.5	3.8	Industrial countries	8.0	8.0
of which:			*of which:*		
United States	4.0	4.0	United States	6.3	6.0
Japan	0.3	1.8	Japan	3.0	3.0
Europe	3.8	4.0	Europe	10.8	11.0
Germany	0.8	1.8	Germany	8.0	8.3
World trade (1)	**3.8**	**4.0**			
Exports (1)			**Imports** (1)		
Industrial countries	4.5	5.0	Industrial countries	5.0	4.0
Non-oil LDCs	8.8	6.3	Non-oil LDCs	5.6	7.1
Oil-exporting LDCs	−4.8	7.1	Oil-exporting LDCs	−15.3	0.1

Sources: IMF and OECD.
(1) At constant prices. — (2) Billions of dollars. — (3) Private consumption deflator. — (4) Level.

disequilibria among the main countries appear set to remain substantial in 1988. The US deficit should decrease, although not yet by much; trade volumes should continue to move in the right direction, with exports increasing considerably and imports remaining more or less unchanged, but during 1988 the adjustment will still be limited by the scale of price effects due to the decline in the dollar. Around half of the contraction in the US deficit is likely to be counterbalanced by reductions in the current account surpluses of Japan and Germany, which will nevertheless remain large in dollar terms despite the trend in volume flows. The success of efforts to bring down the US deficit will depend in large measure on the Asian NICs, whose exports to the United States have increased rapidly in recent years. A continuation of this trend could delay a reduction in current account disequilibria.

The current account deficit of the developing countries as a whole decreased considerably last year and is likely to remain at the same level in 1988 and 1989, largely as a result of the recovery in the external position of the oil-exporting countries after the sharp deterioration in 1986.

The Italian economy

After declining slightly in the summer, industrial output began to rise again in the latter part of the year. In the final quarter the seasonally adjusted production index was 2.5 per cent higher than in the third, and preliminary estimates indicate that there was probably a further rise of about 2 per cent in January. Business opinion on the state of demand and production in the coming months also remains favourable.

Fiscal strategy for 1988

The fiscal strategy for 1988 outlined by the Government at the end of September (see Economic Bulletin *No. 5) was modified extensively during the passage of the Finance Bill through Parliament. In November the Government proposed a significant adjustment of the strategy; subject to certain amendments, this was embodied in the Bill approved by the Senate on 6 December. Further changes were made in the text passed by the Chamber of Deputies on 7 February.*

The fiscal provisions contained in one of the accompanying measures were also incorporated into the Bill during its passage through Parliament. The measures that remain the subject of separate legislation include the regulations concerning benefits paid by the Wage Supplementation Fund, which are aimed at achieving better control over expenditure, and legislation on the revaluation of company assets.

The main changes proposed by the Government — *On 10 November the Government introduced in the Senate a series of amendments aimed at further reducing the state sector borrowing requirement by about 6,000 billion lire, including a saving of around 500 billion lire on interest payments. According to government estimates, the new fiscal strategy would enable it to keep the borrowing requirement down to 103,500 billion lire in 1988. However, the Government's declared objective was to reduce this to around 100,000 billion lire by means of further measures to be taken in the course of the year.*

In the taxation field, the changes in tax rates and income brackets were postponed to 1989, although the higher allowances for employees and dependent spouses were confirmed; the saving in revenue by comparison with the strategy laid down in September was officially estimated at 3,800 billion lire. At the same time it was decided to shelve the proposed increases in certain VAT rates, which would have produced additional revenue of around 3,000 billion lire in 1988.

With regard to social security, the further reduction in employers' contributions was shelved; this would have placed an additional burden of around 1,000 billion lire on the public finances. Expenditure was increased by 550 billion lire by bringing the introduction of the new "family unit benefit" forward to 1 January 1988.

In the health field, prescription charges were increased and the prices of medicaments listed in the National Pharmacopoeia were frozen for 1988; taken together, these measures were expected to produce an additional saving of 850 billion lire.

The Treasury borrowing requirement was reduced by a further 3,000 billion lire by making an equivalent reduction in planned lending to ENEL and the telecommunications companies by the Deposits and Loans Fund.

When the subsequent government crisis was resolved, it was agreed that legislation would be introduced in July 1988 to reduce personal income tax rates by 2 per cent on an annual basis for 1988, provided that in the preceding month the underlying rate of inflation did not exceed the target rate of 4.5 per cent. The tax cuts were also made conditional on the implementation of specific reductions in expenditure and changes in the arrangements for simplified accounting for some categories of taxpayer that would offset the effect of the cuts on the budget (estimated at 900 billion lire in 1988 and 600 billion in 1989). A consultative committee was established for this purpose; one of its main tasks is to examine the efficiency and productivity of public expenditure and the scope for spending curbs.

The main changes made by the Senate — *The Finance Bill approved by the Senate on 6 December contained most of the Government's proposals but modified the strategy in a number of respects.*

In the taxation field, licence charges on state concessions were increased, yielding estimated additional revenue of 350 billion lire.

As regards social security, part of the increase in contributions from the farm sector planned for 1988 was deferred and additional reductions were made in health contributions. The new procedures for establishing eligibility for civil disability pensions were modified slightly (the prefectures were given precise responsibilities in this field) and the Minister of Health was given until 31 March 1988 to draw up a revised disability table on the basis of the criteria laid down by the World Health Organization. The Senate confirmed the allocation of the contributions from Gescal (the former Worker Housing Agency) to finance public housing programmes; under the Government's original proposals these funds would have been transferred to a Fund for Reducing Unemployment set up at the Ministry of Labour. In addition, 1,000 billion lire was set aside for each of the three years from 1988 to 1990 to create a special current account fund for future improvements in pensions.

In the health sector, the Senate amended some of the provisions that had been introduced in November to curb the consumption of medicines and increase the proportion of drug costs borne by patients. In particular, the existing rules on prescription charges were retained only for a list of essential medicaments that the Government was to draw up within four months in consultation with the Advisory Board on Pharmaceuticals. Prescription charges were set at 33 per cent of the retail price for the remaining medicaments in the National Pharmacopoeia.

The Senate Budget Committee also inserted a number of provisions into Articles 1 and 2 of the Finance Bill in order to establish more stringent control over the growth in expenditure and to ensure that the criteria for financing legislation were respected. These criteria were established in Law 468/1978 instituting the Finance Law but have not yet been fully implemented. The new provisions relate to the procedures for estimating costs arising from legislation, certain aspects of financial planning and control and the precise definition of the various alternative methods of ensuring adequate financing.

The main changes made by the Chamber of Deputies — *The Finance Bill was further amended by the Chamber of Deputies on 7 February; as a whole, the provisions adopted were less stringent than those approved by the Senate. Doubts were also expressed about specific aspects of the strategy resulting from the entry into force of provisions promulgated by emergency government decree but not incorporated (or only partly) in the Bill approved by the Chamber.*

With regard to taxation and social security contributions, the Chamber did not approve the increase in withholding tax from 25 to 30 per cent on interest from bank and postal accounts or the increase in the two payments on account for 1988 from 100 to 120 per cent of total withholding tax paid for the preceding tax period. These provisions were nevertheless enacted by Decree Law 533 of 29 December 1987 and extended by Decree Law 3 of 13 January 1988. Were they to remain in force, they would generate revenue estimated officially at around 2,500 billion lire. Increases in certain indirect taxes were approved that should produce around 700 billion lire in additional revenue. It was also decided that the personal income tax scale should be revised annually from 1989 onwards if the inflation rate exceeds 4 per cent.

In the social security field, the new regulations aimed at achieving greater control over benefits were not approved; these related to procedures for ascertaining eligibility for civil disability pensions, verification of continued eligibility every three years and the revision of the disability table. It was also laid down that from 1 January 1988 income above the pensionable limit (currently just below 39 million lire) will count towards determining the level of pension entitlement under the compulsory pension scheme, in accordance with coefficients inversely related to the portion of income in question. A further provision modifies the method of linking pensions to the rate of increase in salaries from 1989 onwards; under the previous legislation pensions were increased in line with the minimum contractual wages of industrial workers, whereas under the new arrangement pensions will be linked to the average contractual wages of all workers in the private and public sectors. It was decided that part of the ex-Gescal contributions — 1,250 billion lire in 1988 and 1,000 billion lire a year thereafter — should be absorbed into budgetary revenue. The regulations on early retirement in certain sectors were renewed up to 31 December 1988, at a cost estimated officially at 350 billion lire. The funds allocated by the Senate to finance new measures to improve pensions were replaced by allocations of 500, 1,000 and 1,500 billion lire in 1988, 1989 and 1990 respectively in order to institute the minimum pension and by an allocation of 500 billion lire for each of these three years for new measures to standardize pensions.

As regards the health sector, the provisions introduced by the Senate regarding prescription charges were not endorsed by the Chamber and the increase in the flat-rate charge from 1,000 to 2,000 lire was reinstated. Nor did the Chamber confirm the provisions aimed at reducing the underutilization of beds in public hospitals; however, these measures were brought into effect by means of Decree Law 27 of 8 January 1988.

Further measures relate to employment and environmental protection. Expenditure up to a maximum of 500 billion lire a year from 1988 to 1990 was authorized to finance local initiatives in the South that create part-time jobs for young unemployed persons. An allocation of 740 billion lire was made to finance subsequent legislation establishing the Fund for Reducing Unemployment. It will be remembered that the financial strategy formulated in September allocated the entire contributions of Gescal to this fund. The expenditure of 870 billion lire in 1988 for a programme of urgent environmental protection measures was also authorized.

Partly by altering expectations, the cancellation of the planned increase in VAT rates, which would have come into force at the beginning of this year, made it possible to avoid accentuating upward pressure on prices at a time when inflation had begun to accelerate again and there was considerable uncertainty as to its behaviour over the short term. The underlying rise in the cost of living, which had accelerated from 4.1 per cent on a 12-month basis in June to 5.3 per cent in October, began to fall back, slowing down to 5 per cent in January.

After a very disappointing performance in the first half of the year, exports began to increase again in the summer, thanks partly to the growth in demand in the main industrial countries; the increase came to 3 per cent for the year as a whole. However, there was also a very pronounced rise in imports in the latter part of 1987, since industry was operating at close to capacity and was therefore unable to keep pace with the strong growth in overall demand; imports of goods and services rose by an annual average of 10 per cent in volume terms. Given the continued favourable trend in the terms of trade, 1987 closed with the current account broadly in balance.

In November, in a climate of great uncertainty, and taking especially into account the recent developments on the international economic stage, the Government proceeded to modify its fiscal policy and in particular the proposals of the Finance Bill.

Under the new proposals the measures to curb the upward trend in the budget deficit were made more stringent by cutting planned reductions in taxes and social security contributions and eliminating budget allocations in the form of Deposits and Loans Fund loans to ENEL and telecommunication companies. At the same time, the Government dropped its plans to increase VAT rates, as mentioned above. It set itself the objective of holding the state sector borrowing requirement to 100,000 billion lire; estimates based on the planned measures indicated a figure of 103,500 billion lire for this aggregate (see insert). The Minister of the Treasury appointed a committee to verify the efficiency and productivity of public expenditure with a view to identifying possible reductions and savings; the committee should complete its work this April.

Table 19

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	63,234	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	72,799	69,133	31,604	13.4	100,737	20.9	18.5	89,810	19.9	16.5	99.5
1983	631,575	15.9	88,260	85,197	35,432	13.2	120,629	20.7	19.1	111,545	20.6	17.7	103.8
1984 (6)	720,682	14.1	95,695	91,708	48,325	15.6	140,033	19.7	19.4	129,287	19.7	17.9	109.0
1985	805,754	11.8	110,036	107,281	46,441	12.9	153,722	18.1	19.1	138,280	17.6	17.2	114.9
1986	894,362	11.0	109,557	106,314	45,650	11.4	151,963	15.1	17.0	156,815	16.9	17.5	121.3
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)	971,400	8.6	113,491	106,137	44,507	10.0	150,643	13.0	15.5	154,200	14.2	15.9	127.5
1988 (9)	1,045,000	7.5	103,500	97,000	39,000	8.0	136,000	10.4	13.0	138,000	11.1	13.2	131.7

(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, September 1986. — (8) Forecast outturn. — (9) Planning scenario, December 1987.

In December the Bank of Italy updated the financial flows matrix for 1988 in the light both of the international economic developments of the last few months of 1987 and of the objective for the state sector borrowing requirement resulting from amendments to the Finance Bill. It was then submitted to the Interministerial Committee for Economic Planning for approval.

The target range for the growth in lending to the non-state sector set when the Forecasting and Planning Report was presented (6-10 per cent) remains unchanged. The width of the range takes account of recent trends in the economy, which might cause credit demand to be weaker than previously expected, and also makes allowance for the uncertain behaviour of the share market and the reduction in financial transfers to public sector enterprises under the new Finance Law, which might lead to an increase in recourse to bank lending.

An expansion of the order of 39 trillion lire in credit to the non-state sector, which would be consistent with the central value of the target range, and a state sector borrowing requirement of the amount originally planned would produce an expansion in total domestic credit of 136 trillion lire, 10.4 per cent more than the figure for the end of 1987. The ratio to GDP would decrease further, to 13 per cent (Table 19).

Domestic financial assets are likely to increase at about the same rate as total domestic credit; by the end of 1988 they are expected to exceed national income by almost a third. If the M2 money supply is to grow in line with GDP, and hence within the target range of 6-9 per cent announced at the end of September and confirmed in December, households' and enterprises' holdings of government securities will have to grow more than twice as fast as national income.

The reform of the secondary market in government securities will help to create closer links between issue terms and investor demand, thus strengthening the relations between the new issue and secondary markets. Growing cross-border capital mobility, which will intensify during 1988 owing to the entry into force of the new exchange control legislation, will also require greater yield flexibility, especially in short-term securities.

The amendments to the Finance Bill made in Parliament reduced its original severity and delayed its passage (see insert). If the objectives set by the new proposals are to be upheld, further fiscal measures will have to be taken. Otherwise, the state sector borrowing requirement will exceed the initial forecasts by at least as much as in 1987, although the exact size of the overshoot is not easy to quantify at present. Market sales of a significantly larger net volume of government securities would affect interest rates and thus put a brake on production and investment.

The past year's trends may continue in the short term, thereby masking the deterioration in the situation for a time, but the Italian economy's capacity for non-inflationary growth will be undermined by the problems stemming from the budget deficit. The Italian economy is particularly vulnerable to disequilibria in the public finances, as critical episodes in recent years regarding both the financial and real sectors have demonstrated.

Once the Bill has become law and its effects on the state sector borrowing requirement can be estimated, it will be necessary to consider whether it is compatible with the real and financial objectives that have been set.

Based on information available as at 23 February.

Articles

Reform of the Secondary Market in Government Securities

1. Introduction

The growth in the volume of government securities in circulation in Italy has stimulated interest in the working of the markets in which they are traded after issue.

The question at hand does not concern the creation of a secondary market for these securities since one of considerable depth already exists. According to a working paper prepared by the Treasury Ministry, the daily turnover is around 4 trillion lire. Most of this business, which is of a wholesale nature in view of the size of trades, has always been conducted on the interbank market because banks do not normally need the services of specialized intermediaries.

Instead, the necessity for modifying the working of the secondary market arises from the need for greater transparency and smoother functioning. Both these aims can be achieved with the help of existing telematic technologies.

The development of a telematic, or screen-based, market for the wholesale trading of government securities has encountered two major obstacles:

a) the first, of a legal and institutional nature, concerned the compatibility of the planned regulation of the screen-based market for government securities with the provisions of Royal Decree 1068/1913, which, according to a juridical interpretation, would preclude the creation of non-stock-exchange institutions for the purpose of trading in securities;

b) the second, of a fiscal nature, concerned the burden imposed by the stamp duty on contract notes, which had been doubled not long before. Its incidence was particularly pronounced for short-term operations and it consequently discouraged continuity in the flow of orders.

Presidential Decree 556/1987 modified the foregoing Royal Decree and removed the legal impediments. In particular, it was laid down that some provisions of the Royal Decree would not apply to dealing in securities issued or guaranteed by the government in cases "to be specified in a subsequent Treasury Ministry decree".

As regards the fiscal aspect, Decree Law 533 of 29 December 1987 reduced the rate of tax on transactions of not less than 5 billion lire in government and government guaranteed securities between operators authorized to participate in Treasury bill auctions (Table 1).

With a decree dated 8 February 1988, described below, the Treasury specified the general lines along which the new secondary market would operate.

Table 1

Tax on transfers of government and government guaranteed securities

(thousands of lire)

Face value of securities	Cash contracts	Futures contracts, repurchase agreements and *riporti* contracts with maturities of up to		
		10 days	20 days	45 days
from 5 to 10 bn lire . .	350	350	500	700
more than 10 bn lire .	500	500	700	1,000

2. Towards a more efficient secondary market

2.1 The secondary market in government securities has grown apace, but with the lack of balance that sometimes accompanies very rapid growth. The prices set on the stock exchange relate to a marginal volume of turnover and little information is available about the prices fixed in off-exchange, or "street", trading. The government securities traded on the Milan Stock Exchange in December 1987 amounted to 1.9 trillion lire, or 0.48 per cent of the total stock of listed government securities (394 trillion).

On the other hand, the depth of the off-exchange secondary market is much greater. As mentioned above, the daily turnover in government securities in 1986-87 was around 4 trillion lire according to data obtained from the Bank of Italy's central securities depository, with which is deposited more than 80 per cent of the government securities in circulation, and from balance sheet documentation provided by the leading banks.

The shortcomings of the existing secondary market were clearly evidenced during the summer of last year, when, as a result of large-scale disinvestment, the prices of government securities came under very heavy pressure, despite substantial purchases by the Bank of Italy. The recent experience of greater instability in the securities markets has called for suitable, well-timed measures to help to ensure more orderly trading conditions on the secondary market.

Technological progress in telematics has everywhere influenced the ways in which markets are organized, prices are formed and trading conducted, making it unnecessary for persons, securities and cash to move physically during the formation and execution of a contract. In particular, these far-reaching changes have called for a thorough reassessment of two aspects of securities trading that have a strong bearing on the efficiency of the market for government securities:

- the ways in which prices are determined; and
- the role of intermediation.

The trading decisions taken by participants in securities markets are influenced by the configuration of the market itself, the way in which the flow of orders and transactions is organized, and the distribution of information. As a general rule, an efficient procedure is needed whereby all operators, through ready access to data on prices and the volume of transactions, can ascertain the state of the market.

2.2 An effective process of price formation should help to maximize their significance and transparency.

In practice, numerous factors tend to keep prices away from the equilibrium values they would reach in the absence of market imperfections. These include:

- inefficient market operating structures;
- timing mismatches between flows of orders to buy and sell;
- the inadequate distribution of information.

As the gap between equilibrium values and current market prices widens, the stability and transparency of markets decrease, while speculative pressures increase and the function of prices as a signal is undermined.

2.3 The "optimal" structure of the secondary market for government securities calls for the participation of a sizable number of operators who meet well-defined requirements with respect to capital adequacy and professional competence. Dealing in securities would then be facilitated by the presence of market intermediaries able to meet customer orders promptly at current prices.

In the leading government securities markets abroad this service is provided by a special type of intermediary (primary dealers in the United States, market makers in the United Kingdom and *spécialistes* in France). According to the circumstances, these intermediaries can trade either on their own account or on behalf of their customers, thus operating as dealers or as brokers.

By being continuously prepared to buy and sell a given selection of securities, primary traders facilitate the matching of supply and demand. Clearly, the inclusion of such operators in the market can be expected to deepen it.

2.4 The creation of a secondary market for government securities that will be sufficiently broad (open to a sizable number of operators), deep (such as to assure high levels of supply and demand at prices slightly different from those prevailing) and elastic (responsive to price changes) will have considerable repercussions on the Italian financial system.

Government securities will become more attractive to foreign investors, who until now have found that Italian market conditions did not adequately ensure the liquidity of investments. The inflow of funds from abroad that could follow would have a positive effect on the balance of payments, which would be all the more valuable as exchange controls are lifted.

Insofar as a more efficient secondary market increases the liquidity of investments in government securities, additional domestic and foreign demand will be stimulated, with positive repercussions in terms of public debt management and debt-servicing costs. Monetary management will also benefit since the Bank of Italy will be able to intervene more effectively to influence the level and structure of interest rates.

Finally, these improvements should also help to achieve more equilibrated conditions between the primary market and the secondary market. The possibility of continuously observing prices that reflect secondary market conditions will provide a valid reference point for setting the terms of new issues.

3. The main features of the reform

In view of the large stock of Italian government securities outstanding and its distribution among a wide variety of investors — banks, investment funds, insurance companies, industrial firms, financial companies and households — the prerequisites exist for a system of primary operators, bank and non-bank, that would help to provide a continuous indication of supply and demand conditions for government securities.

With a view to improving the operating framework of the secondary market, the monetary authorities have drawn up a plan of a new centralized trading system for government securities. In this context, account was taken both of the Blueprint for the Reform of the Stock Exchange, presented by the Consob in April 1987, and of the views of leading securities traders.

The plan as presented foresees that the market would comprise the most active securities traders, who would continuously display competitive firm bid and offer prices via a screen-based system, as well as other operators in a customer role.

The framework established by the Decree signed by the Treasury Minister on 8 February 1988 contains the following provisions:

- participation in the screen-based system will be open to the Bank of Italy, banks and special credit institutions, licensed stock exchange dealers, financial companies, insurance companies and investment fund management companies;
- participants will have to have at least 5 billion lire of capital and will be required to sign a special Convention to be approved by the Treasury Minister;
- the Bank of Italy, in part with the aim of ensuring effective competition between operators, will keep a register of primary dealers, in which firms that have signed the Convention and applied for registration will be entered provided they satisfy the following requirements: i) capital in excess of 20 billion lire; ii) sales of government and government guaranteed securities in the preceding year of at least 5 trillion lire; iii) directors of sufficient integrity and professional competence;
- registration as a primary dealer will entail a commitment to provide market operators with firm, continuous bid and offer prices for at least five government or government guaranteed securities and to supply the supervisory authorities with facts and figures;
- participants in the screen-based system will have to belong to the clearing system for government securities, via credit institutions if desired, and have accounts with the Bank of Italy's Central Securities Depository Service and Monte Titoli S.p.A.;
- the minimum number of participants for the system to operate is fixed at 30, of which at least 10 must be primary operators;

- the minimum size of trades is fixed at 5 billion lire;
- a Management Committee with responsibility for self-regulation will be set up among system members. This Committee will also be entrusted with the task of indicating the securities in which participants are to deal.

4. The operations of the Bank of Italy

The creation of an efficient secondary market for government securities, restricted to clearly defined categories of intermediary and with some acting as primary operators, will permit more effective use to be made of the instruments of monetary control, such as the Bank of Italy's open market operations.

The Bank will continue to intervene by way of both repurchase agreements, usually at short term, and outright purchases and sales, for the most part of Treasury bills. Such interventions influence the longer-term market with a lag. The Bank of Italy will also be able to intervene in the Stock Exchange to influence the medium and long-term end of the market.

Primary operators need to be able to count on an efficient money market to finance their positions. Shortcomings in the functioning of this market are an obstacle to their operations. The Bank of Italy will be prepared to provide funds or securities by way of repurchase agreements, especially during the initial phase of the new secondary market. This support will be available up to an amount related to the stock of securities that is considered the minimum operators need to trade, provided this does not prejudice monetary base control. The interest on these operations will be equal to the yield on the securities involved, so that they will be neutral for operators.

Primary operators will be required to supply the Bank of Italy and the Consob with detailed trading information on a daily basis. Intermediaries will also benefit from the data that the Bank of Italy will publish on minimum, maximum and weighted average prices and total turnover.

* * *

Subsequent to the publication of the Italian version of this Bulletin, *the Government approved Decree Law 70 of 14 March 1988, which modified the tax treatment of all securities transactions. In place of the tax reduction on contracts of more than 5 billion lire allowed by Decree Law 533 of 29 December 1987 (Table 1), the new Decree Law enacts a generalized reduction of the tax burden, while also simplifying the tax treatment as a whole. It provides for the same tax treatment of cash, forward and* riporti *contracts as of repurchase agreements; it also fixes a ceiling of 1.6 million lire on the tax payment for each operation.*

(22 March 1988)

Speeches

Towards a European Banking Regulatory Framework

Speech given by the Deputy Director General, Tommaso Padoa-Schioppa, at a conference on "New equilibria between financial intermediaries, savings and firms" organized by L'Impresa *magazine*

Milan, 23 October 1987

1. The theme of "new equilibria" has institutional and regulatory connotations as well as financial and operational ones. In my remarks today I propose to show that for the most important of the financial intermediaries, namely the banks, the institutional aspects are now in a phase of significant evolutionary change.

Today the world of finance is undergoing a twofold process: the globalization of markets and the attenuation, or in some cases the disappearance, of the boundaries between the functions performed by the different types of market agents. The regulatory framework appears to be lagging some way behind these developments, in part because it is still largely based on the limits of national jurisdictions and in part because it remains tied to traditional types of intermediation and operators. The result is a mismatching between financial phenomena and the structures necessary to regulate them, and consequently, a risk of instability.

However, there is one area — namely, the European Economic Community — in which this regulatory gap is about to be dealt with and, at least in part, bridged. Today I will speak about this experience as it concerns the banks. But although all my remarks will be devoted to the case of banking, it should be clear that the problem exists in not dissimilar terms for other areas of regulation and other markets.

The work now being done within the Community is based on the decision to abolish all residual economic and physical barriers to the free exchange of goods, services and factors of production by the end of 1992. This decision, which has taken the form of an amendment to the Treaty of Rome ratified by the parliaments of all the member states, has profoundly modified the outlook for the completion of the internal European market. True enough, the Treaty of Rome had already set the objective of an internal market without frontiers more than thirty years ago. But the adoption of new methods of integration and new decision-making procedures has now lent a strong new impulse to the realization of a single European market.

The fundamental instrument for bringing the single market into being is legislation. The Community has the constitutional power to issue rules that are directly applicable to economic operators, that can be invoked by these latter in judicial proceedings, and that take precedence over national legislation. In banking, the most important of these rules is the 1977 Directive, which has already brought about some of the most fundamental changes in Italian banking regulations since 1936 — reopening, among other things, the possibility of founding new banks, which had been precluded in practice for many years.

I shall treat four points concerning the plan for European banking integration: its more general context, the rationale under which it should operate, the current state of the implementation process, and the implications for the Italian system.

2. How do the plans to create a common market for banks fit into the broader objective of a vast "internal market without frontiers" in Europe?

In the monetary and financial sector there are three areas relevant to the process of international integration: money, capital and services. These are three conceptually distinct spheres.

The monetary sphere comprises the foreign exchange regime (above all the European Monetary System), the coordination of national monetary policies, and possibly the creation of a monetary union. The sphere of capital, which is of great interest in Italy at present, includes the possibility of moving savings from residents of one country to those of another. In the area of financial services, finally, integration implies the possibility of providing services — not necessarily capital — such as intermediation and financial assistance, outside the purveyor's home country.

The overlap between these three areas is substantial, though imperfectly delineated. It is said that the integration process in any one of the three, if pushed to its ultimate conclusions, would necessarily carry along with it integration in the other two. For instance, a monetary union without an integrated banking system or the free movement of capital is hardly conceivable. Yet, during the phase leading up to union, the three spheres can be distinguished not only conceptually but in practical terms as well. This is because the instruments by which integration is pursued are diverse, and so also are the negotiating forums, even though these are all inside the European Community edifice. It has thus been recognized that the success of the entire programme requires that the progress made in each area must be kept in balance with that achieved in the other two. Otherwise we are in danger of failing to reach our objective. For example, a strong move towards full capital mobility could provoke imbalances or a breakdown in the exchange system if it is not accompanied by improved and strengthened monetary cooperation.

In the third sphere, that of financial services, one may distinguish between banks (or, more precisely, credit institutions), stock markets (and, more generally, capital markets), and insurance companies. This three-way breakdown certainly does not cover the entire range of financial institutions today, with its numerous new activities, instruments and institutions, which the Community takes into consideration in its programme for the liberalization of the financial services market. Nevertheless, these traditional institutional categories still today cover the greatest part of financial activity.

The considerations which follow, being related to the banks, therefore concern only one type of operator, in the context of just one of the three spheres apposite to the problems of monetary and financial integration. And they refer only to the European market, which is but one of three major global financial centres. The theme, in a word, is a limited one.

3. What is the philosophical approach underlying the process of banking integration in Europe? The rationale can be summed up in two general criteria: "minimal harmonization" and "mutual recognition". Let us see what they consist in.

The aim of creating a common market — an objective that goes well beyond that of creating a zone of free trade — was long pursued by the Community through the development of a body of Community rules embracing all fields and all the matters in which legislation intervenes in the economy: technical norms, consumer protection, safety requirements, standardization of contracts, and so on. Underlying this approach was the belief that without full harmonization of the rules the market could not be unified. This approach should not surprise us, since it is the one followed in the creation of the legislative and regulatory framework of virtually every European nation and has indeed been the basis for the political unity of some of them. German unification in the nineteenth century, for instance, was preceded by a customs union and the promulgation of a single commercial code for all the states of Germany.

In 1985, however, the Community chose to adopt a different method of achieving its market "with no internal frontiers". No longer would all legislation affecting the economy have to be reformulated. Instead, the Community would follow a procedure of mutual recognition, whereby each member country recognizes as valid for its own territory the rules in effect in the others and pledges not to invoke differences between its own laws and those of other members so as to restrict the free access of foreign producers to its national markets for goods and services.

This approach is typical of federal systems, in particular that of the United States. In the latter, jurisdiction in the vast majority of matters affecting the economy lies with the individual states, not with the federal government, but each state must recognize the laws of the others and not use legislative or regulatory differences as barriers to trade and commerce.

While the principle of mutual recognition springs from the need for streamlined operating procedures and for pluralism, our second principle, that of minimal harmonization, derives from the need for common legislation on certain fundamental matters. For if the unification of the European market were to be based solely on mutual recognition it would lack sufficient protection of the objectives or the "goods" of public interest. If such protection were not provided at the supranational level, it would probably also disappear at the national level, where legislation would gradually be adapted to favour domestic businesses in their activities in foreign markets. This would constitute an economic danger for the entire Community.

It was therefore decided to satisfy some requirements of a mutual high-priority nature by harmonizing the essential aspects of member states' legislation.

For banking, the principle of minimal harmonization is of vital importance, for the obvious reason that Community regulations in this sector are designed for the fundamental purpose of safeguarding the stability of the credit system. We should not underestimate the risk that some parts of the Community may apply regulations that are particularly "favourable" to the banks but dangerous for system stability, or in other words that legislative or regulatory "havens" may be created. And the only way to avert this threat is to draft a common legislative platform to safeguard the entire Community against the possibility that within it a "free zone" may be formed from which any bank could conduct operations throughout the entire Community with an inadequate regulatory framework.

These, then, are the two principles on which the future European banking market is based: to safeguard certain fundamental public goods — "public" in that they belong to the Community — by the passage of some minimal Community legislation; and to entrust everything beyond this minimum to regulatory pluralism. Once the harmonization of the fundamental rules has been achieved, a bank established in any member state will be able to do business throughout the European market under the regulations of its home country and the control of that country's supervisory authorities.

The choice of this method of integration is an enormously important innovation. This approach will give rise to a system in which two kinds of competition take place: the classic competition among participants operating in a single market; and a competition among regulations, since an area common to twelve countries will be governed by their twelve competing regulatory systems, each consistent with the more general Community system, which will have been constructed by means of the programme of minimal harmonization.

The differences between regulatory systems will presumably diminish or disappear in time, provided that the normal competitive process emerges, which tends to standard products and conditions, and provided, as is likely, that the banks actively press for the removal of the features of their home-country legislation that put them at a disadvantage with respect to competing credit institutions. In short, the method of market integration embarked on in 1985 implies that most of the process of regulatory convergence among the member states will not be accomplished "deductively", that is by refashioning the whole of Community legislation, but spontaneously, over the long term, through the device of mutual recognition.

Another procedural aspect that must be recalled concerns the decision, also now included in the Treaty, that the directives necessary for the realization of the single internal market would be approved by majority vote. The end of the unanimity rule will not only speed up the legislative process and facilitate compromise solutions but also make it harder for each country to get the Community legislation to incorporate those elements in which its own system diverges from the others.

4. A third set of considerations concerns the current state of implementation of the programme of banking integration.

First of all, it must be observed that the simple decision, taken by the governments and ratified by the parliaments of the member states, to carry out integration in all economic fields, to bring it about by a fixed date, 1992, and to achieve it by new, more effective methods such as mutual recognition and majority-based decisions has profoundly altered the attitudes and expectations of market participants and government departments. All the credit institutions, bankers' associations and supervisory authorities of the countries of the European Community are now fully convinced that 1992 is a real deadline and that they will have to move fast in order not to miss it. This awareness has spurred broader and swifter action by the Community. Thus, whereas only a very few, relatively unimportant directives concerning banking were laboriously approved from 1958 to 1985, now the examination of a wide range of questions has been energetically begun and work is proceeding apace.

The Commission is drafting several proposals for directives, which the Community's legislative branch, in the Council of Ministers, will have to discuss and approve. These directives should cover the area of minimal harmonization and build a platform for a common regulatory framework. As soon as this platform is in place, every institution licensed to conduct banking business in a member state will enjoy full freedom of establishment and the right to do business throughout the territory of the Community under the regulations of its home country and the control of its home supervisory authorities.

It would take too long to describe in detail the work being done by the competent technical committees in preparing the requisite legislation. The main problem in the committees is not so much in negotiating the fundamental points to be safeguarded by common legislation as in correctly identifying them. This entails rethinking all the main aspects of a banking regulatory framework: the definition of a credit institution; the specification of the activities it can engage in; the choice between specialized and universal banking; the instruments for ensuring the credit institutions' stability, such as capital ratios and limits on the concentration of risks; and the protection and guarantee of depositors.

Are common rules on bank liquidity and maturity transformation necessary? Should some provisions governing bank liquidation procedures be included? How can the problem of equity participations in and by a bank be resolved? And the associated problem of the relations between a bank and industry? What common rules should be laid down concerning professional confidentiality? What about branching policy? There has been thorough discussion on every one of these points.

What is taking shape is a quite streamlined body of common legislation: the directives already in force — especially the first coordination directive (1977) and the 1983 directive on supervision on a consolidated basis — will be joined by others: one on banks' annual accounts, because some minimal homogeneity in the presentation of balance sheets is necessary; one on solvency ratios, i.e. minimum capital ratios calculated on the basis of risk-weighted assets; one on large exposures, to limit the concentration of risks; one on deposit guarantees. The directives will not necessarily need to harmonize every last detail. It will suffice, for instance, to lay down that each country must have laws or regulations governing certain specified matters, but allowing for a variety of possible solutions depending upon the specific form of organization in question.

It is noteworthy that in the new system there will not be a European supervisory body. To be sure, agencies and procedures for coordination are envisaged, but the operations and stability of each bank will still be watched over by the supervisory authorities of the country in which it is licensed; and the exercise of this function also extends to the bank's business in other member states. The principle followed in Italy, namely that the supervisory responsibility for all the activities of a credit institution lies with the central bank branch of the province in which that institution has its legal headquarters, will be adopted at the European level under the designation "home country control". There is, of course, the not negligible difference that while the banking regulatory system in Lombardy is identical to that in Tuscany (though not, as we know, to that in Sicily), differences of some importance may subsist among the various members of the Community.

If we look at the future regulatory system from the standpoint of the markets rather than that of the banks' head offices, it is apparent that in each country the banking system will consist of institutions that, for the non-harmonized matters, will conform to twelve distinct national legislations. This is what will set the process of competition between regulations in motion. The prospect of a regulatory regime based on the principle of mutual recognition and home country control may seem very complex and even disturbing. But in the United States, one may recall, there is no federal legislation governing the insurance business, and yet each insurance company operates nationwide subject to the law of its home state. This situation does not appear to have caused insoluble problems.

5. I should like to conclude with a brief discussion of my fourth theme, namely the implications of the Community programme for the Italian banking system.

All the matters I have dealt with so far concern only one aspect of the realization of a European banking market, namely the creation of a Community regulatory framework. There are two other, equally important aspects: first, the effects on the Italian regulatory system ensuing from the significant freedom left to member states by Community legislation and from the requirement that each state conform to the Community guidelines; and second, the impact on the strategy of the banks, which will obviously have to develop operating guidelines and development plans in keeping with the changes in the market.

With regard to the Italian regulatory system, let me just observe that the Interministerial Committee for Credit and Savings, the Treasury and the Bank of Italy have been rapidly and energetically promoting substantial changes in the credit system, prompted in part by the prospect of European integration. The capital ratios introduced a year ago, the new rules on branching matters, and the concept of the polyfunctional banking group are significant examples of such activity.

The second aspect, the banks' strategies, does not depend on the supervisory authorities. With the entire set of Community regulations scheduled to go into effect on 1 January 1993, Italian banks have only a limited time in which to draw up guidelines and plans of action consonant with the existence of a single European market and with the arrival in Italy of competitive pressures from foreign banks. Our banking system finds itself today in a position similar to that of Italian industry in 1959, on the eve of an opening to competition that was a challenge but also an opportunity. In the sixties, Italian industry rose successfully to that challenge.

One final observation on the other areas of finance. I have the impression that the integration of legislation governing non-bank financial intermediaries will not be as rapid as that foreseen for the banking sector. This situation provides an opportunity for the credit system, because it means that the banks will be the first financial institutions in Europe — apart from the insurance companies — to benefit from an integrated market and a regulatory framework whose essential elements have been harmonized. This, in my judgment, will give them a competitive advantage over other intermediaries and will favour a flowing back towards the banking system of activity that in recent years has developed outside the classical patterns of financial intermediation.

Statement by the Governor, Carlo A. Ciampi, to the Interministerial Committee for Economic Planning

16 December 1987

When your Committee met on 24 September to examine the Government's Forecasting and Planning Report for 1988, the Italian economy was experiencing tensions in both the foreign exchange and the bond markets. The pressures stemmed from a pickup in inflation, a worsening of the balance of payments on current account and resultant expectations that extrapolated these tendencies.

The conviction that what underlay these developments was an excessively fast expansion of domestic demand, outstripping that in the other leading industrial economies, led the monetary authorities to resist the pressures for devaluation. Hence the essentially fiscal measures of 27 August, which also took account of the fact that the budget deficit was not only overshooting the target but would actually exceed that of 1986, and the subsequent foreign exchange and credit measures of 13 September.

On 24 September we could already make a tentatively positive evaluation of the impact of these measures. Now, three months later, that judgement can be confirmed.

In October, as we know, international markets were shaken by the collapse in share prices. The danger of recession has now moved to the fore, and economic and monetary policymakers have acted accordingly, though without neglecting the need to prevent a resurgence of inflation.

In this forum no purpose would be served by dwelling on the explanations of the stock market crash itself or on the financial excesses that may have touched it off. For the real economy, the world outlook for 1988 is now for a less robust expansion of aggregate demand. This makes it all the more imperative for a highly open economy like Italy's to redress its domestic weaknesses.

It is worthwhile adding that the stock market crisis has been followed by a further sharp depreciation of the dollar that is still under way, and this has had repercussions on the European Monetary System. The policy line taken by our monetary authorities in October, in a context radically different from that of the summer months, was to allow an adjustment of the lira with respect to the Deutschemark as soon as the repercussions on the EMS were felt, thus preventing the taking of new speculative positions. This later enabled the lira to hold stable within the EMS without defensive interventions despite the further depreciation of the dollar.

In the last few months Italy's foreign trade performance has narrowed the deficits recorded in the spring. The expansion of import volumes has slowed, while exports show signs of renewed expansion. The balance of trade for the year as a whole may register a smaller deficit than had been forecast in September, but the balance on services and transfer payments for the year has deteriorated. Thus the current account balance will not diverge significantly from the broad equilibrium forecast at that time.

Capital movements are also likely to be more or less balanced. The portfolio outflow connected with liberalization measures has been financed by international borrowing by the Treasury, in keeping with the policy of favouring the orderly continuation of Italy's opening to the international financial system.

The exchange and credit measures referred to earlier halted speculation against the lira by inflicting substantial penalty losses. They thus made it possible to rebuild Italy's official reserves, despite times of turbulence connected with the depreciation of the dollar. Between mid-September and mid-December, our foreign exchange reserves increased by 11.4 billion dollars, of which 3.4 billion came from international borrowing by the Treasury.

The twelve-month inflation rate, which rose from 4.1 per cent in the spring to 5.3 per cent in October, held steady in November, and the outlook for 1988 now appears less worrying.

Improved expectations on prices, the recovery of the secondary market for government securities, and the contraction of overswollen bank lending have reduced expectations of higher interest rates, which had been prevalent until just a few weeks ago. Indeed, developments in the international economy may well work towards a decline in rates.

The expansion of the monetary and credit aggregates in 1987 will be held within the target limits originally forecast.

Before looking at the probable effect of recent domestic and international economic events on the real and financial outlook for 1988, let me briefly bring the Committee up to date on the performance of the main monetary and credit aggregates in the last few months.

The expansion of Italian monetary and credit aggregates in 1987 will be within the original target ranges. The projected outturn on flows of funds for 1987 that I presented to you three months ago has proved accurate in its essentials. The state sector borrowing requirement amounted to 106 trillion lire over the first eleven months, and it is expected to reach 111 trillion for the year, as against the original target of 100 trillion.

The slowdown in the expansion of lira lending has been considerable. Measured from the start of the year, the annual pace of growth in bank lending in lire was 14 per cent at the end of August but had slowed to 7 per cent in November. The apparent ease with which bank credit came back within the limits, with only modest rises in lending rates, demonstrates just how important the purely speculative component had become in overall loan demand; and it was that component that the introduction of the credit ceiling had been aimed at, counting partly on the announcement effect. Actually, the contraction of bank lending mainly concerned loans at interest rates below the prime rate.

Despite the acceleration of lending by the special credit institutions, which had been expected to some extent, total credit to the non-state sector appears to be heading towards a growth of about 9 per cent on the year, which was the upper limit of the target range. Given the overshooting of the target on state sector borrowing, the growth in total domestic credit will still be almost 13 per cent.

As to financial assets, a projection based on the latest data confirms that the growth in M2 will be within the upper limit of the target range of 6 to 9 per cent.

Compliance with the target growth rate for money supply has been facilitated by a return of the government securities market towards normality. The uncertainty that affected operators at the start of the summer led to a fall in prices on the secondary market. Neither the higher yields offered at issue nor the bringing forward to September of the doubling of the withholding tax on interest income managed to restore calm to the market. The Treasury was convinced that the reluctance of operators to invest in medium-term securities was transient, so it shortened the maturities of new issues from September, while the Bank of Italy intervened to support the secondary market in order to facilitate a return to more orderly conditions. At the end of October and the beginning of November the yields at issue of government securities were raised again by around half a point. In November the outlook improved: the prices of securities gradually rose, with those of Treasury bonds closing the gap with yields at issue that had been created in the preceding months. At the same time average daily support interventions were only half their October level.

The successful issue of Treasury credit certificates at the start of December was the first sign of a recovery in the demand for government securities on the primary market. It was thus possible to make a slight reduction in the rate on Treasury bills in mid-month, in harmony with reductions in the major European countries.

The support for government securities prices did not endanger achievement of the aggregate growth targets for the monetary base and monetary financing of the Treasury, which will remain within the target limits for the year. In order to meet an expected growth of around 14 trillion lire in the monetary base for 1987, recourse by the Treasury to central bank financing should be of the order of 11 trillion, which is less than the average for the preceding five years and about the same as in 1986.

Turning to the economic outlook for next year, the crisis in the stock market suggests a downward revision of forecasts for growth in output by the industrial countries as a whole. It is no easy task to quantify the effects of the recessionary forces, since they will depend on the ability of the leading economies to restore market confidence by enacting coordinated economic policies consistent with reduction of the imbalances besetting the international economy. Recent forecasts by international institutions indicate that the slowdown in real growth may affect the United States more than Europe. Since it is impossible adequately to evaluate the prevailing uncertainties, these predictions have on the whole merely lowered the previous forecasts of expansion in world demand for 1988 by a few decimal points. The Ministry for the Budget has therefore decided not to propose revising the forecast for growth of the Italian economy. This implies the need for even more determined efforts on the part of our economy to remain competitive: otherwise, it will be very difficult to achieve the targets for investment and the creation of new jobs.

With regard to inflation, international events and in particular the continuing depreciation of the dollar, which has fallen from 1,310 to 1,200 lire over the last three months, will be reflected in lower costs for imported primary goods; external pressure for price increases will ease. Bearing in mind the Government's abrogation of the VAT increases that were to take effect on 1 January, the target rate for inflation in 1988, fixed at 4.5 per cent in the Forecasting and Planning Report, appears realistic: however, its achievement depends on the ability to contain the domestic components of prices.

It is imperative that we reduce the gap between inflation in Italy and that in other countries if we are to maintain competitiveness in international markets. As we have seen, the tensions for the European Monetary System caused by the dollar's vicissitudes have been absorbed in part by allowing an adjustment of the lira's rate against the Deutschemark, which moved from 722 to 737 lire between mid-September and yesterday. The Deutschemark's revaluation against the lira since the beginning of the year is thus over 5.5 per cent. As approximately 30 per cent of Italian exports is destined for the Deutschemark area, the loss of competitiveness in relation to the American market has been largely offset.

The amendments to the Finance Bill are a step in the right direction, even though the ultimate aim of restoring the public finances to a sound footing is still a long way off. I do not think it necessary to recall here the dangers inherent in a deficit and public debt whose magnitude is only too well known.

As I have already said, the renunciation of an increase in indirect taxation, combined with the effects of the dollar's depreciation, will facilitate the task of keeping inflation within the target range: this is a fundamental requirement for limiting any loss in competitiveness. The latter goal can only be achieved if both public and private sector salaries are kept within the limits set by the Government.

The new Finance Bill aims to hold the state sector borrowing requirement for 1988 under 103.5 trillion lire, a reduction of 6 trillion from the original target. If it then proved possible to realize the Government's intention of reducing the deficit to around 100 trillion lire, we would have gone some way towards returning to the original path, aimed at achieving a zero borrowing requirement net of interest payments.

The forecasts for financial flows and for monetary and credit targets for 1988, announced in this Committee's last meeting, have been reconsidered in the light of the new domestic and international macroeconomic situation.

Even if real growth should fall below the forecast rate because of international economic trends, the demand for credit will be affected by the reduced easiness for firms to raise funds in the equity market, as well as by the increased requirements of state-controlled companies stemming from the limited financing provided by the new Finance Bill. Loans from the Deposits and Loans Fund to SIP and ENEL are reduced under the new bill by 3 trillion lire, which could give rise to increased recourse to bank loans and bond issues.

The target growth range for lending to the non-state sector, fixed at the end of September at between 6 and 10 per cent, appears wide enough to take these new factors into account.

Taking the central point of this target range as a reference and bearing in mind the reduction of the public sector borrowing requirement to 103.5 trillion lire, the flow of total domestic credit should fall from 143 to 137 trillion lire, leading to a half-point reduction in the annual rate of growth from 11 to 10.5 per cent.

The expansion of aggregate financial assets should fall by a comparable amount, while the growth range for M2 can remain unchanged at between 6 and 9 per cent.

In conclusion, the Italian economy enters the new year with less severe disequilibria than was feared some months ago, albeit greater than those of the other leading European countries. It is, moreover, entering a year in which the international scenario is far less certain and presents many more problems.

The Revival of the Italian Economy: Strengths and Weaknesses

Address by the Governor, Carlo A. Ciampi,
to the Round Table organized by "Business International"
Rome, 26 January 1988

1. Perhaps to a greater extent than usual the overall results of the Italian economy in 1987 were the outcome of alternating events, of light and shadow. When they are set against the background of international developments and compared with the original forecasts and objectives, the balance of the assessment is positive.

Even though the official figures for the fourth quarter are not yet available, the increase in real GDP last year can be estimated at close to 3 per cent. This is one of the highest rates recorded in a Europe marked by sluggish growth and follows the good result of the previous year. Despite some reversal in the second half of the year, consumer price inflation slowed further, with the average annual increase in prices being 1.5 percentage points below that recorded in 1986. Incomplete data indicate that the external current account was in balance in 1987, even though the beneficial effects deriving from the 1986 collapse in oil prices came to an end and domestic demand expanded faster than in the other industrial countries.

On the other hand, unemployment rose further, despite the creation of about 150,000 new jobs over the last two years, and reached 12 per cent of the labour force. The budget deficit overshot the target by more than 10 trillion lire, even though it decreased slightly in relation to GDP. The size of the public debt is now on a par with national income.

These diverse results need to be seen in the light of the substantial improvement that has been achieved in the basic conditions of the Italian economy during the eighties. Italy now has important elements of strength on which it can rely in the future and which it can exploit both to carry forward its adjustment efforts and to meet its future commitments. Notable among these is the completion of the single European market by 1992, in which Italy is called upon to participate to a degree commensurate with its stronger economic situation.

Only a few years ago such considerations would have been viewed as no more than favourable omens. Today, the positive aspects of the Italian economy demonstrate Italy's actual as well as potential vitality and deserve to be carefully analyzed.

Other speakers will be describing the state of the various sectors of the economy. For my part, I shall briefly examine the policies that helped to put the Italian economy back on its feet — not to indulge in national self-congratulation but to determine what is solidly based in the improvement and what, by contrast, is precarious, and hence to identify the points of weakness and the action to be taken.

2. Towards the end of the seventies the Italian economy was poised to reap the benefits of the adjustment carried out in the wake of the first oil shock, with investment picking up but inflation still in double figures. At this point it was struck by a new wave of destabilizing forces from abroad: the strong surge in the prices of oil and other raw materials that Italy has to import, and the appreciation of the dollar, which was to last until the early part of 1985.

World demand slowed abruptly, while domestic demand continued to grow at a hardly sustainable rate.

The state sector borrowing requirement rose to over 10 per cent as a proportion of GDP, while the public debt began to grow faster than the economy as a whole. Inflation soared to more than 20 per cent, the highest level of the whole post-war period. The divergence between the growth of domestic and world demand created the conditions for increased import penetration, which, coupled with the deterioration in the terms of trade, resulted in very substantial external deficits. In 1980 the current account deficit exceeded 2 per cent of GDP, while the trade deficit alone amounted to nearly 4 per cent.

Partly because indexation was so extensive, the country risked being caught in a perverse spiral of inflation and stagnation. In several quarters doubts were expressed as to the ability of Italy's economic and social fabric to withstand the strains. It was necessary to prevent the country from detaching itself from the group of advanced economies. The goal of disinflation had to be pursued together with that of not jeopardizing balanced growth. This clearly had to be achieved by adjusting the productive system and the country's credit and financial structures to the changed conditions both in Italy and abroad. Otherwise the spectre of deindustrialization loomed.

The path to be followed was beset with obstacles. The behaviour of economic agents in both the private sector and the public sector had to be directed towards the goal of disinflation. The various elements of economic policy — fiscal and incomes policy as well as monetary and exchange rate policy — had to be made strict and carefully coordinated. Achieving this convergence of attitudes and action was complicated by the difficulty of establishing specific quantitative objectives that would be mutually compatible.

For its part, the central bank chose to deploy the exchange rate in the fight against inflation in the belief that balance-of-payments adjustment had to be achieved through alterations in both the conditions of production and demand and the criteria for setting prices and wages. Had this task been entrusted to exchange devaluation, the benefits would have been short-lived. The inflation differential between Italy and its major trading partners would not have been narrowed and the way would have been opened for further devaluations and new inflationary pressures. In short, adoption of an accommodating exchange rate policy would only have postponed the choices that had to be made, and the country would have risked being faced with the alternative of impoverishing the productive structure or setting off an inflationary spiral.

Implemented pragmatically, the policy of maintaining the lira in the EMS provided an anchor in the fight to bring down inflation. The changes in the lira's central rate in this period were made without accommodating autonomous price pressures of domestic origin.

The slowdown in world demand made it necessary, at the same time, for credit and monetary policy to prevent growth in domestic demand that would be incompatible with exchange rate stability and balance-of-payments adjustment. This orientation of monetary policy led to an institutional change, the so-called "divorce" between the Treasury and the central bank, whereby it was agreed that the Bank of Italy would no longer be obliged to act as residual buyer for securities newly issued to cover the borrowing needs of the Treasury. This change considerably enhanced the Bank's autonomy in controlling the monetary base and coincided with the completion of a series of measures put in hand in the mid-seventies with the aim of creating a fully-fledged money market. The combined effect was to enable the central bank to pursue monetary policy objectives with a set of instruments acting indirectly on the financial aggregates and thus to renounce systematic recourse to administrative controls.

The defence of Italian industry's competitiveness, which the strictness of monetary and exchange rate policy facilitated rather than thwarted, had to be backed by appropriate measures on other fronts. In particular, the incomes policy measures promoted by the Government in 1983 and 1984 led to significant changes in the mechanisms for indexing wages, though the reformed system continued to safeguard the real wage level.

Firms reacted to the stimulus of rigorous, but credible, monetary and exchange rate policies by improving productivity and cutting costs, introducing innovations in products and production processes, and looking for new outlets in foreign markets. The less confrontational climate of industrial relations, the easing of wage pressures and the support provided by the public sector, which attenuated the economic and social consequences of the shedding of excess labour, made a decisive contribution to the economy's return to health.

Small and medium-sized firms continued to develop in the first half of the eighties, with output, investment and employment all expanding without interruption. Among the large firms, however, more extensive restructuring work was called for, and this has been carried out. Profitability was restored and consolidated, but the increases in production and investment were accompanied by a decrease in employment. The recovery in operating profits was matched by an improvement in corporate finances, with a substantial easing in the burden of debt and of interest costs. The reorganization of firms in the public sector was slower, in part owing to their heavy involvement in industries suffering from acute structural crises.

The turnaround in corporate performance also benefited from a change in the role of the banking system and financial markets. Without renouncing the goal of stability, supervisory activity has increasingly sought to promote the efficiency of both banks and other intermediaries in the allocation of saving and credit. The banking system is responding positively to the stimuli deriving from a higher degree of domestic competition and from international competition. The latter is provided by the 37 foreign banks that are already operating in Italy, and it will become fiercer with the unification of the European market in 1992.

3. The results of the economic policy described above are well known. From a peak annual rate of 21.7 per cent in February 1980 consumer price inflation had fallen to 8.6 per cent by November 1984, despite the rise in the lira prices of imported raw materials and semi-finished goods caused by the appreciation of the dollar. After difficulties in coordinating the various policy strands re-emerged in 1985 and halted the slowdown in inflation, the collapse of oil prices and the fall of the dollar gave the process renewed impetus, with consumer prices rising on average by no more than 4.6 per cent in 1987. The inflation differential vis-à-vis the other major industrial countries is now down to two percentage points, compared with nine at the beginning of the eighties.

Although it rose very slowly from 1981 to 1983, real GDP has expanded without interruption. From 1980 to 1987 the average annual growth rate amounted to 2 per cent.

The external current account has been brought back into balance. Even though the 1987 trade deficit was larger than the previous year's, it was still about 12 trillion lire smaller than that recorded in 1985.

The excessively restrictive system of exchange controls inherited from the seventies has been superseded by a reform based on the principle of freedom of cross-border transactions and incorporating the goal of exchange liberalization that will lead to the completion of the European market.

Within the framework of the rules laid down by the European Community, Italy has occasionally resorted, most recently on 13 September 1987, to temporary restrictions on short-term capital movements with the aim of countering downward pressure on the lira for which economic fundamentals offered no justification. That the adoption of such measures is seen as an exceptional and temporary step is confirmed by last week's decision to lift the September restrictions, which was taken as soon as the country's foreign exchange position permitted and earlier than originally planned.

The progress made in curbing inflation and restoring firms to profitability involved costs, especially in terms of employment. The balance-of-payments constraint meant that the slowdown in world demand could not be offset by a higher level of domestic demand induced by a volume of public expenditure even greater than that already being incurred. Even so, the repercussions on employment were less severe than elsewhere; they were attenuated by the gradualism with which monetary stability was pursued. In contrast with other industrial countries, there was never an actual decrease in the demand for labour, though this did not grow fast enough to absorb an increase in the labour force that was well above the European average. This reflected demographic factors as well as a rising female participation rate, and it aggravated the situation primarily in the South of Italy.

4. The Italian economy is not yet in perfect health, however. Recognizing the substantial improvements in production, productivity and industrial viability revealed by statistics does not mean ignoring the weak links still present in the industrial fabric or the almost complete failure to redress the structural imbalances in the public sector.

Italy is on the threshold of a new and demanding phase of development and modernization, involving closer integration of its real and financial sectors in the European and world economies.

There is no lack of sectors still grappling with the task of returning to profitability and for which the prospects are uncertain. More generally, the external accounts remain a constraint on the economy's growth, despite the improvements produced by the fall in oil prices. The problem of the country's energy requirements remains to be tackled and solutions will have to be found to the shortcomings of agriculture, which also impose a heavy burden on Italy's trade balance.

Qualitatively, the productive capacity of industry has been considerably upgraded, but in quantitative terms it has remained unchanged for years, especially among large firms, with the consequent risk of supply bottlenecks. The success of small and medium-sized firms in investing, creating jobs and producing competitive products has been based on their flexibility, but it has not been accompanied by an adequate strengthening of their organization and financial management. Advantage will have to be taken of the opportunities offered by new technologies and it will be necessary to remove the obstacles to achieving higher productivity in activities ancillary to manufacturing, such as training, marketing, data processing and R&D. While the small size of many firms does not detract from their ability to manufacture efficiently, in these fields it often represents a handicap.

The competitiveness of firms depends to a significant extent on progress in services that are incorporated directly in the production process and on external economies that only the state can make available. The growing demand for efficient services, coming from the productive sector and society in general, has not been sufficiently met in recent years. It is especially important that the transport and telecommunications sectors should be modernized. The composition of public expenditure needs to be improved and its rate of expansion curbed. At all events, there is an urgent need to cap the budget deficit and halt the growth of the public debt in relation to GDP, not least by taking steps to reduce tax avoidance and evasion as well as erosion of the tax base. The objective of eliminating the budget deficit net of interest payments is of paramount importance. Further progress in rehabilitating the firms in the public sector will enable them to commit more resources to the development of the infrastructures required in the production of goods and services. At the same time determined action will have to be taken to overcome the inefficiency and backwardness present in basic public services, such as health, education and the pension system.

To this end, the steps taken by Parliament and the Government must be supported by consistent behaviour on the part of labour and employers to check the development of corporativistic pressures incompatible with non-inflationary growth.

On the whole, Italian industry is dynamic and, especially among the larger groups, is oriented towards expansion abroad. Italian firms have traditionally been less international than their counterparts in the other major industrial countries, but their foreign investment has been gathering momentum in the eighties. In the period 1981-86 the net outflow of Italian investment capital amounted to 16 trillion lire, while the corresponding net inflow of foreign capital amounted to a little more than 6 trillion. At the end of 1986 Italian direct investment abroad totaled 35 trillion lire, on a par with foreign direct investment in Italy.

The persistence of large sectoral and geographical imbalances does not allow Italy to become a structural net exporter of capital. Nonetheless, both market conditions, and especially the institutional and other developments under way in Europe, and the recovery in profits, which started in 1980 and has subsequently been boosted by the improvement in the terms of trade, must spur firms into taking up more demanding challenges that will transcend national frontiers on both the demand side and the supply side. Rapidity in taking advantage of financial investment opportunities must be accompanied by an ability to make investments in the real economy, especially in the production of capital goods incorporating advanced technologies. It is only in this way that our ability to compete, and hence to create new jobs, will increase.

5. The growth in public expenditure and the budget deficit during the eighties made it necessary for the government to draw increasingly heavily on households' saving. The development of the money and financial markets, coupled with the introduction of innovatory features and issue techniques for government securities, has enabled ever larger transfers of funds between the two sectors, thus permitting the money supply to be kept under control.

Since 1983 better economic conditions, together with the steps taken to regulate the share market, listed companies and investment funds, have reopened the securities market as a large-scale source of corporate finance.

In its efforts to enhance the stability and efficiency of the services it supplies to the economy, the banking system has had, and will continue to have, the full support and encouragement of the Bank of Italy. In the last few years the Bank has launched the reform of the payments system, made the management of banks' branch networks more flexible and increased their fund-raising capacity by modifying the regulations governing short-term certificates of deposit. It has also enlarged the scope for banks to operate in the fields of merchant banking and consumer credit. The Bank has continued to exert pressure on banks to strengthen their capital bases with the introduction of capital adequacy ratios in advance of the decisions recently taken by the G-10 central banks in Basle.

The presence of the public sector in the Italian banking system is the legacy of a past in which private capital for investment in financial enterprises was lacking. It is nonetheless desirable that today's universal acceptance of the entrepreneurial nature of banks, whether they belong to the private or the public sector, should be reflected in the adoption of the most suitable form of organization for the conduct of business — the public limited company. This solution can be applied directly or in an indirect way by hiving off the banking activity into a separate company. The latter solution would allow credit institutions established as foundations to benefit from the advantages of limited companies while conserving their original features. Entrusting the entrepreneurial activity to a separate private law organization controlled by the original foundation involves no more than a simple modification of the way in which the latter pursues its objects.

In many ways the relations between a strong banking system and a growing capital market are complementary, with a point of convergence created by banks' operations in the securities market. The Treasury, the Consob and the Bank of Italy are preparing the guidelines for a wide-ranging revision of the legislation governing the organization and operations of the stock exchange. The reform of the secondary market for government securities being undertaken is another component of this design. It will benefit the management of the public debt and promote the internationalization of the Italian financial market.

The stock market events of 1987 confirm that the development of financial markets should be instrumental in improving the allocation of resources and serve to enhance the capacity for growth of the economy as a whole. The primacy of the real sector has long been one of my basic tenets.

Exchange liberalization will further increase the exposure of banks and the capital market to foreign competition.

In the European Community the conflicts implicit in stable exchange rates, complete freedom of capital movements and disparities in regional conditions will have to be overcome by strengthening the EMS and coordinating economic and monetary policies more closely. We remain convinced that an economically united Europe can be a valid interlocutor and natural partner of the countries and areas that are the front runners in the production and exchange of goods and services.

The creation of a single European capital market by 1992 and, more generally, the globalization of financial markets that is under way call for an all-out drive to rationalize and modernize Italy's financial system.

Exchange liberalization provides the necessary stimulus for a further opening of Italy's real and financial sectors. At the same time it imposes a constraint requiring even greater consistency and rigour in the formulation of economic policy.

In an international scene marked by slower growth at short and long term and heightened uncertainty, monetary and exchange rate policies will have to be backed by suitable fiscal and incomes policies. Only if this condition is satisfied will it be possible for the revival of the Italian economy to proceed and spread to those sectors and areas that have so far been too little affected.

Credit Risks in Payments Systems: the Role of Central Banks

Speech given by the Deputy Director General, Tommaso Padoa-Schioppa, at the 10th Payments Systems International Conference

Rome, 15-17 March 1988

1. Introduction

This conference is being held at a time when many countries are planning or undergoing radical changes in their payments systems. The benefits expected from these changes, which have been discussed frequently and at length, are so great that the process is bound to continue in spite of the new risks that it generates.

Awareness of these new risks is now growing at an ever faster pace. While it was originally the concern of a small circle of experts, it has now spread much wider and given rise to analyses, proposals, and actions in both the operational and the regulatory field. We have not yet reached the point, however, of identifying a set of commonly accepted principles comparable to those that led, several decades ago, to the establishment of banking supervision and central bank control functions. Early in this century, agreement on the public policy measures necessary to deal with a system of paper currency and bank money was reached only after several financial crises and disruptions in payments systems. This time the path leading to a new institutional order will have to be different. It would be most undesirable to struggle through the same learning process, not least because the new systems operating in the industrialized countries would almost immediately amplify the difficulties of a single market operator and spread their effects over the whole economy.

It is indispensable, therefore, that we find ways to anticipate events on the basis of economic analysis, and that we profit as much as possible from each other's experience.

In Italy, we have embarked on an extensive reorganization of the interbank payments system following the guidelines set out in the Bank of Italy's White Paper, which was published in April 1987 and will soon be available in an English version. Although our main problem is to overcome the inefficiencies of our present system, we are also compelled at every stage in the design of new procedures to pay careful attention to the problem of security.

2. Three types of risk

Risks of three kinds are to be found in every payments system: *fraud risk, operational risk* and *credit risk.* Let me briefly summarize their nature and assess their importance.

The risk of *fraud* is inherent in the nature of the payments system. An industry whose function is to circulate financial wealth within the economy is an obvious target for criminal activity. In the past, banknotes were stolen or counterfeited. Today, the greatest threat is computer crime. The complexity of the production processes used in payments systems has significantly increased the number of people who can attack them. Networks, with their numerous points of access and long transmission lines, are especially vulnerable, and this vulnerability increases with their functional and organizational diversification. Linking operators with different institutional features and different attitudes to security can easily result in weaknesses in the system as a whole.

The second type of risk, that of *operating failures,* is a consequence of the widespread application of computers and telecommunications. The new technologies have greatly improved many aspects of the payments process, but they are not as reliable as the old paper-based services, which though slow and costly were always available to customers. The new systems are bound to suffer from breakdowns that are largely unpredictable and whose effects spread much wider.

The third type of risk, *credit risk,* came into existence with the creation of bank money, which has permitted the circulation of means of payment to be separated from that of financial wealth. This separation has considerably eased the problems of security associated with the holding of notes and coin. At the same time, however, it has generated a new type of risk, because payments made with bank money can only proceed on the basis of mutual trust between the parties involved.

The nature of credit risk can be clearly seen in the most traditional of banking payment instruments — the cheque. The person who accepts a cheque in payment grants a credit to the counterparty until the transfer of financial wealth actually takes place or, in other words, until settlement is made. Credit risk, as we all know, can be incurred either by the person who accepts the cheque or by his or her bank if, as is often the case, the amount of the cheque is credited to the account of the beneficiary before the issuer's account has been debited.

Credit risk can also be taken to include the possible insolvency of one of the operators in the system. This risk is sometimes called settlement risk, insofar as it arises at the moment of settlement, and sometimes systemic risk, because its effects can be transmitted to customers and to other components of the banking system, with macroeconomic implications. It exists because the transfer of claims in interbank payments is not accompanied by a simultaneous transfer of financial wealth. Consequently, interbank payments generate a web of debits and credits that can only be extinguished if every bank is in a position to meet its commitments at the moment of settlement.

The two types of credit risk, that of a final user of the system failing to meet his obligations and that of the failure of a participating bank, are inherent in payments systems based on bank money. They nonetheless raise a series of completely new problems in modern economies, both for the banks and for the authorities responsible for the stability of the payments system.

As an economist and central bank official, I shall concentrate on the third category of risk, namely credit risk. Risks relating to operating failures and frauds will be examined more thoroughly in other parts of the conference. This does not mean, of course, that the authorities can overlook them. The security problems in the payments industry have always been one of the main reasons for government intervention in this field, ranging from the production of banknotes with increasingly sophisticated methods to the creation of special judicial instruments for the repression of criminal activity.

3. Credit risks in electronic payments systems

New payments instruments make it possible to reduce the lag between transactions and settlements and to shift the credit risk from the users to the producers of payments services. This tendency is the result of both supply and demand factors. On the demand side, the enormous growth in the number of transactions, population mobility and mass distribution have made the day-to-day assessment of counterparties' creditworthiness increasingly complicated and risky. On the supply side, banks and other operators have been able to meet the need for safer instruments through the widespread application of technologies that process huge amounts of information at decreasing costs. In retailing, the main example of this trend, which got under way with the introduction of credit cards, is the development of point-of-sale systems for cashless shopping.

The risks that used to be borne directly by the parties involved in a transaction are thus being progressively taken on by the producers of payments services. The advantages for the economy are obvious: payments with bank money can now be made with the same guarantees provided in the past by notes and coin, without the related risk of theft or loss.

On the other hand, the suppliers of payments services have found themselves having to cope with types of risk that require completely new methods of assessment, protection and production.

At the same time, settlement risk has been heightened both by the lower quality and by the larger volume of interbank credit that payments are generating.

The deterioration in the quality of interbank credit is the result of several factors: non-bank enterprises are entering the payments market for the first time; fiercer competition is increasing the probability of bank failures; and the bringing together in a single network of institutions and payments systems subject to different regulatory regimes increases risk for every participant.

As for the increase in the volume of credit, the prime mover has been the spread of technologies that reduce transaction costs and allow a growing number of payments to be processed per unit of time. Forces have also been at work on the demand side, such as the increasing internationalization and "financialization" of the advanced economies. Indeed, it would be a mistake to attribute the increase in transactions exclusively to telematics. In Italy, for instance, we do not have an electronic clearing system, but as a ratio to GDP the annual volume of payments cleared has risen over the last ten years from 2.5 per cent to 4.5 per cent.

While the gross volume of payments has greatly increased, the stock of liquid reserves held by banks, i.e. the stock of base money available for final payments, has been progressively economized through gains in operational efficiency and improvements in the money market. At the same time, the frequency of interbank settlements has not changed significantly because the portfolio adjustments necessary to complete settlements are costly and involve complex management decisions. Furthermore, nobody has even considered — as yet — the possibility of closing accounts more than once during the working day.

It follows that if banks can only adjust their balance sheets at intervals and are unwilling to increase their liquid reserves to economize on their adjustment costs, the growth of transactions inevitably leads to a considerable rise in the interbank credit generated by payments.

This credit exists both in electronic clearing systems, where settlement is made at the end of the day, and in those systems, such as the Fedwire, in which every transaction is final, since it is settled with a transfer of central bank money supplied at no cost by the central bank.

While both systems generate intra-day credit, with electronic clearing systems the settlement risk is borne by banks, while in the systems that provide real-time movements of base money the risk is borne directly by the central bank. Accordingly, it is only with clearing systems, which settle at discrete points in time, that the failure of a bank to meet its obligations can have systemic effects.

An important evolution is thus under way in modern payments systems, not only as regards the nature and scale of the credit risk generated by payments, but also in the distribution of this risk among the various participants. Banks are increasingly coming to bear the risk of insolvency on the part of final users and are more exposed than in the past to the consequences of another bank failing to meet its obligations in the payments process. In turn, certain central banks have decided to take over at least a part of the growing risks through their active participation in wholesale payments systems.

4. Who should bear settlement risk?

In planning the new clearing and settlement mechanisms in Italy we have asked ourselves whether and to what extent the daylight credit that is necessarily generated by payments should be provided by the central bank for the specific purpose of minimizing systemic risk.

The best way to address this problem is perhaps to ask whether the market can cope with settlement risk on its own. One "market" solution would be for daylight interest to be charged at rates that would incorporate a premium against the risk that the counterparty might fail. This would send the signals needed to optimize the allocation of credit flows, and the intervention of the authorities could be limited to providing appropriate incentives to stimulate the formation of these prices.

Such a solution, however, is unlikely to be practicable. It would be very difficult for the market itself to generate the information needed to assess the solvency of wholesale payments operators, especially in view of the rapidity with which this information would have to be collected. In the absence of reliable indicators, unfounded rumours about the state of a bank could lead other banks not to accept its payments, thereby forcing it to abandon the market. The behaviour of individual operators might therefore be in conflict with the general interest and could even paralyze the payments system in moments of financial distress.

Another conceivable market solution is insurance. The question, however, is whether a private insurance scheme that would fully cover the risk of a bank being unable to settle is really reasonable. The experience of most countries teaches us that a private insurance company could cover this type of risk only for crises involving small institutions. Furthermore, banks would probably be unwilling to provide private insurers with the information needed to assess their soundness, as this might put the latter in a position to control the banks' behaviour.

This does not mean that private insurance schemes cannot be developed to supplement those of a public nature so as to shift part of the burden of rescue operations onto operators. Such schemes would help to bring more discipline to the market and limit exposure to the riskiest firms only.

We are bound to conclude that market mechanisms are not sufficient. The ultimate reliability of the payments system can only be guaranteed by an independent third party whose liabilities are universally accepted and provide full legal discharge. These conditions, by definition, are met by the liabilities of the central bank. Moreover, only an independent public institution, such as a central bank, is in a position to obtain the information needed to assess the health of operators and, above all, to keep this information confidential, a key condition given that confidence in the soundness of the payments system is indispensable if it is to work properly. Furthermore, only an institution with adequate powers can intervene with the necessary promptness to prevent the crisis of one bank from acquiring systemic proportions. Thus, it is the very essence of central banking that leads to the direct involvement of the central bank as the provider of finality in payments. The extent of this involvement, however, is still an open question. That the central bank should be ready to provide finality of payments certainly does not imply that its services should not be priced, or that the credit extended should not be collateralized, and even less that it should be unlimited.

For the time being the Bank of Italy has decided that alongside electronic clearing there should be a real-time system for the movement of bank reserves that will ensure finality and maximum rapidity of execution of wholesale payments. Initially, the system will not cover the full range of operations since daylight overdrafts will not be granted; it will nonetheless be able to take over a growing share of interbank payments.

5. Ways to reduce settlement risk

Market solutions and a greater operational role of the central bank, both leading to enlarging the share of final payments relative to total payments, would still not eliminate the problem. Thus, it is necessary to find other ways to reduce settlement risk. This could be done in two ways: by seeking to avoid the occurrence of events that could lead to the failure of an individual bank and by introducing regulations or market rules aimed at preventing such a failure from spreading to the rest of the *system*. Obviously, these two courses are not mutually exclusive.

The first comprises the arrangements for preventing an individual bank from being unable to meet its settlement obligations as a result of a sudden and unexpected worsening of its profitability and liquidity. Since money markets in all the leading countries are now so deep and efficient that almost any bank can raise funds very rapidly, only a failure during the course of the day would prevent a bank from meeting its settlement obligations. Moreover, such a failure would have a systemic impact only if the bank were at least of medium size and the supervisory authorities had been caught so much by surprise that they were unable to take any of the usual steps in such circumstances, such as excluding the bank from the clearing system or providing special credit facilities.

Such an event is, of course, rare, but it would become more likely if a country's economic situation were to suffer a general deterioration. In order to minimize its probability, it is necessary to strengthen supervision on several fronts. Firstly, by limiting the risk positions banks are allowed to take in highly volatile markets such as those for shares and foreign exchange. Secondly, by excluding from the wholesale payments system unregulated operators and those subject to completely different regulatory regimes. Finally, by extending supervision to all the bank and non-bank institutions in a position to give rise to systemic risks.

Since the probability of an individual bank failure cannot be reduced to zero, we should consider strengthening the second line of defence: the legal and organizational arrangements aimed at preventing an individual failure from spreading to the *system* as a whole. The speed with which a crisis spreads depends on the credit outstanding in the system and the number of banks exposed to the insolvent one. This suggests that the amount of interbank credit generated by payments should be limited by various means, such as reducing the interval between settlements, slowing down the execution of payments, or introducing contracts based on novation, thereby permitting a reduction in operators' obligations towards their counterparties. The issue involves rather complex technical problems and I shall do no more than indicate some points that are important for public policy.

In the first place, if a trade-off exists between the efficiency of the payment mechanism and the solidity of the financial system as a whole, it might be desirable to throw a little sand into the former, reducing the speed of transactions below the full potential of the electronic technology. This could be achieved either by setting limits on individual banks' exposures, such as the caps put in place in the US system, or by charging tariffs or taxes that would increase the cost of interbank daylight credit. It is worth noting that this would not be the first time that society decided not to fully exploit scientific progress. In the field of civil aviation, for example, environmental considerations have prevented supersonic flight from being widely introduced, even though the technology has been available for years. An artificial reduction in speed, however, is only a partial solution. The advantages of rapid payments are so great for the market that attempts to circumvent restrictions will almost inevitably develop, giving rise to the creation of unregulated alternative circuits.

Another measure would be to increase the reserves that banks are required to hold with the central bank for settlement purposes. In an extreme solution, credit risk would be completely eliminated by increasing these reserves to the point where every payment was matched by a transfer of base money, thereby de facto suppressing the credit element of interbank payments. To achieve this result, it would be necessary to raise the compulsory reserve ratio or to pay appropriate rates on banks' free reserves with the central bank. The first solution would impose a heavy tax on bank intermediation to the advantage of other financial intermediaries. The second would greatly change the authorities' ability to manage the money supply. In order to maintain the same degree of control over the monetary aggregates, wider fluctuations in interest rates would be necessary.

6. The role of central banks

What has been said so far shows the public policy relevance of payments system risks and the special responsibilities of the central bank in this field.

We have seen: firstly, that in modern wholesale payments systems every major participant is exposed to, or may cause, problems of a systemic nature; secondly, that the market cannot cope with these problems without some form of intervention by the central bank; and finally, that the role of the central bank in this field involves all its functions — as operator, supervisory body, regulatory agency and monetary authority. Let me say a few words on each of these functions.

As an operator in the payments system, the central bank is in the best position to manage interbank payments in a way that minimizes the time lag between the exchange of messages and settlement, thereby reducing systemic risk. Its role as a direct participant in the payments process allows it to set conditions and market rules aimed at enhancing safety and soundness on the basis of a contractual relationship with its counterparts, similar in nature to that between banks and their clients. Its powers in this case depend on its operational efficiency and on the quality of the services that it supplies to the participating institutions.

As a supervisory authority, new tasks emerge as a result of the greater importance of the credit risks generated by payments both in the retail sector, such as the credit card business, and in the wholesale sector, in particular the interbank market. In most countries the attention devoted by supervisory authorities to these types of risk is still much less than the care given to standard bank credit practices. Furthermore, the need to monitor banking activity closely and anticipate crises of individual institutions is strengthened by the wider impact that an unanticipated bank failure would have on the economy as a whole.

As a regulatory authority, the central bank has, or should be given, the authority to set technical and operational standards for the safety of the system as well as rules of conduct, such as caps or "speed limits", for large electronic payments. In Italy, for instance, the central bank has the authority to prevent commercial banks from installing ATMs, if the equipment used does not comply with well-defined technical standards.

Finally, we should not forget that a payments system is a system for the circulation of money and is therefore inevitably affected by the ways in which money flows into the economy or is held in accounts with the central bank. It is therefore one of the monetary authority's principal tasks to strike an optimum balance between monetary control requirements and the soundness of the payments system.

In most of our countries the definition of the role of central banks and other public institutions in the payments system is still tailored to fit the paper technology of the past. It appears crucial, from all I have said so far, that the powers of the authorities should be updated and extended to every major participant in the payments mechanism and, in particular, should cover the activities of the wholesale sector and the large clearing systems. At the same time all the participants should be prevented from engaging in certain activities such as the taking of risky positions in the stock or foreign exchange markets.

In Italy, pending an adequate and explicit institutional framework, the Bank of Italy and the banking system have established an association whose statutes allow the central bank to issue binding rules, especially on security matters. However, this is only a transitional solution, because the force of the association's rules is less than that of a law, and they apply only to banks.

7. Conclusions

I have touched on some of the issues that are of common interest to the users and producers of payment services, as well as to the authorities responsible for controlling the system. It is particularly appropriate that these issues be discussed in an international conference since the pooling of experience and ideas may help each of us to find solutions to problems that are still largely unresolved. Besides, in an age of international trade integration and financial globalization, payments systems themselves become global and risks may arise as a result of a lack of uniformity in rational practices and regulations.

It is a pleasure to host this conference in Italy because we are in the middle of a special effort to put our own payments system in better order, and we look forward to gaining information and insights from your contributions that will help us in this task.

Appendix

Statistical tables

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)*				
1982	−2.5	3.1	−1.0	2.0	1.1	0.2	−3.2
1983	3.6	3.2	1.9	0.7	3.5	0.5	3.2
1984	6.8	5.1	3.3	1.6	2.3	3.5	6.3
1985	3.0	4.7	2.0	1.4	3.8	2.7	4.3
1986	2.9	2.5	2.5	2.2	3.0	2.7	3.3
1987	2.9	3.5 (3)	1.7	2.1 (3)	3.8 (3)	....	3.8 (3)
1986 — 3rd qtr.	0.4	0.9	0.8	0.4	—	0.4	0.1
4th "	0.4	0.7	−0.3	0.4	2.0	0.2	—
1987 — 1st qtr.	1.1	1.5	−0.8	—	0.7	−0.1	1.5
2nd "	0.6	—	1.0	1.0	—	1.8	1.5
3rd "	1.0	2.0	1.4	1.1	2.5	0.5	1.1
4th "	1.0	....	0.5	....	....	....	....
			GNP deflator (1) *(% changes on previous period; seasonally adjusted data)*				
1982	6.5	1.8	4.4	12.0	7.5	16.3	8.7
1983	3.9	0.8	3.2	9.4	5.2	15.2	5.1
1984	3.7	1.2	2.0	7.0	4.4	10.2	3.3
1985	3.2	1.6	2.2	6.1	5.9	8.8	3.2
1986	2.6	1.7	3.1	4.7	3.5	8.0	2.9
1987	3.0	−0.3 (3)	2.5 (3)	2.8 (3)	4.0 (3)	....	4.8 (3)
1986 — 3rd qtr.	1.0	0.3	0.8	0.8	1.2	1.9	1.1
4th "	0.1	−0.3	0.7	−0.2	1.2	1.7	1.1
1987 — 1st qtr.	1.0	−0.4	1.0	1.1	0.9	0.9	1.5
2nd "	0.9	−0.2	0.1	0.7	1.3	1.9	1.1
3rd "	0.7	0.3	−0.3	0.8	1.3	0.4	0.7
4th "	0.7	....	....	....	....	....	....
			Current account balance (2) *(billions of dollars)*				
1982	−8.7	6.9	4.1	−12.1	7.1	−5.5	2.2
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	2.6
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	2.2	−6.7
1987	....	86.7	44.2	....	−4.4	....	....
1986 — 3rd qtr.	−36.6	24.3	8.5	0.8	−6.6	3.4	−0.5
4th "	−38.0	25.7	13.6	1.9	3.3	1.5	−1.6
1987 — 1st qtr.	−36.8	21.0	11.0	−1.8	0.3	−0.4	−2.9
2nd "	−41.1	22.8	10.7	−0.7	−1.1	−1.3	−1.8
3rd "	−43.4	21.2	7.4	−1.3	−1.8	—	−2.6
4th "	....	21.7	15.1	....	−1.8	....	....

Sources: National bulletins, OECD and IMF.

(1) GNP for the US, Japan, Germany and Canada; "marchand" GDP for France; GDP for the UK and Italy. — (2) Seasonally adjusted data for the US and Italy. — (3) Estimates.

Table a2

Industrial production

(% changes on previous period: seasonally adjusted data)

	US	Japan	Germany	France	UK	Italy	Canada
1982	−7.1	0.4	−2.9	−0.4	1.9	−3.1	−8.7
1983	6.0	3.6	0.7	0.4	3.6	−3.2	5.2
1984	11.4	11.0	3.4	1.7	1.3	3.4	14.1
1985	1.6	4.5	5.4	0.7	4.7	1.2	5.2
1986	1.1	−0.3	2.0	0.8	1.8	2.7	1.3
1987	....	3.7	0.4	....	3.2	....	....
1985 — 4th qtr.	0.6	−0.8	0.9	—	0.1	0.3	1.2
1986 — 1st qtr.	0.4	0.2	−0.9	−1.3	0.6	2.1	−0.4
2nd "	−0.7	−0.3	0.9	1.3	0.7	−0.3	—
3rd "	0.3	−0.2	0.9	1.3	1.1	0.2	−0.7
4th "	1.0	−0.1	−0.9	−1.3	0.2	1.8	0.6
1987 — 1st qtr.	0.8	1.3	−1.9	−0.3	0.7	0.7	1.6
2nd "	1.0	—	1.9	2.3	0.5	2.1	1.6
3rd "	2.0	3.6	0.9	0.3	1.6	−0.9	2.4
4th "	....	3.1	1.0	....	1.5	....	....
1986 — Dec.	1.0	2.9	−1.9	—	−0.5	1.5	1.8
1987 — Jan.	−0.5	−0.3	−1.0	−2.0	−0.1	−1.3	−0.4
Feb.	0.7	−0.7	1.9	3.0	1.7	0.6	1.0
Mar.	0.3	1.7	—	1.0	0.2	0.8	0.6
Apr.	—	−1.4	0.9	−1.0	−0.2	1.1	0.2
May	0.6	−1.1	0.9	2.0	0.5	2.1	0.4
June	0.8	3.9	−0.9	1.0	−1.1	−3.3	1.2
July	1.2	1.1	−0.9	−1.0	2.1	1.4	—
Aug.	0.4	−1.1	3.8	—	0.7	−2.4	1.5
Sept.	−0.2	3.0	−1.8	—	−0.5	3.0	1.3
Oct.	0.8	1.1	0.9	—	0.9	2.5	0.2
Nov.	0.4	−0.2	−0.1	—	1.3	−1.0	0.8
Dec.	....	1.4	0.5	....	0.6	....	....

Sources: National bulletins and OECD.

Table a3

Consumer prices

(% changes on corresponding period)

	US	Japan	Germany	France	UK	Italy	Canada
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
1987	3.6	−0.1	0.3	3.1	4.1	....	....
1985 — 4th qtr.	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
3rd "	4.1	0.1	0.6	3.4	4.4	4.9	4.5
4th "	4.5	0.7	1.0	3.1	4.1	....	....
1986 — 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	−0.3	0.7	3.4	4.4	4.7	4.7
Aug.	4.4	0.1	0.8	3.5	4.4	4.8	4.5
Sept.	4.3	0.5	0.4	3.2	4.3	5.2	4.5
Oct.	4.5	0.7	0.9	3.2	4.5	5.5	4.3
Nov.	4.6	0.7	1.0	3.2	4.2	5.4	4.2
Dec.	4.4	0.8	1.0	3.1	3.7	....	....

Sources: National bulletins and OECD.

Table a4

Wholesale prices

(% changes on corresponding period)

	US	Japan	Germany (1)	France (1)	UK (1)	Italy	Canada (1)
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	−2.6	4.5	−0.9	0.9
1987	....	−3.7	−0.6	....	3.8	2.6	2.6
1985 — 4th qtr.	—	−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	−0.4	−0.2
2nd "	2.7	−5.5	−0.9	−0.7	3.6	2.4	2.6
3rd "	4.5	−1.1	0.4	1.3	3.6	4.1	3.7
4th "	....	−0.4	0.7	....	3.8	4.6	4.1
1986 — 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	−0.4
Mar.	0.9	−6.5	−2.1	....	3.7	0.6	0.2
Apr.	2.7	−6.5	−1.4	....	3.5	1.6	1.6
May	2.7	−5.5	−0.7	....	3.5	2.7	3.0
June	3.6	−4.4	−0.5	....	3.6	2.9	3.3
July	3.6	−2.2	0.4	....	3.6	3.8	3.7
Aug.	4.5	−1.1	0.6	....	3.6	4.1	3.8
Sept.	4.5	—	0.4	....	3.6	4.3	3.9
Oct.	4.5	—	0.8	....	3.9	4.5	3.7
Nov.	4.5	−0.1	1.0	....	3.9	4.6	4.2
Dec.	....	−1.1	0.3	....	3.8	4.7	4.3

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)*				
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 — 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
Sept.	6.0	2.5	3.0	9.5	10.0	12.0	9.6
Oct.	6.0	2.5	3.0	9.5	9.5	12.0	8.1
Nov.	6.0	2.5	3.0	9.5	9.0	12.0	8.6
Dec.	6.0	2.5	2.5	9.5	8.5	12.0	8.7
			Money market rates (2) *(monthly averages)*				
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 — 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
Sept.	6.4	3.8	4.0	8.0	10.2	11.8	9.4
Oct.	6.1	3.8	4.7	8.3	10.0	12.0	7.8
Nov.	5.7	3.9	3.9	8.8	8.9	12.1	8.2
Dec.	5.8	3.9	3.7	8.6	8.8	11.7	8.4

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)			
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 — 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	9.8	9.9	11.3	10.4
Sept.	8.7	5.5	6.2	10.3	10.0	11.3	11.1
Oct.	8.7	4.7	6.5	10.7	10.0	11.4	10.2
Nov.	8.0	4.5	6.0	10.0	9.3	11.3	10.5
Dec.	8.1	4.3	6.0	9.7	9.7	10.5	10.4
				Share price indices (1975 = 100) (2)			
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 — 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	399.4
Sept.	373.9	668.5	296.7	582.7	882.3	720.2	390.2
Oct.	331.6	650.2	271.4	498.0	773.6	717.2	301.9
Nov.	284.9	594.5	203.7	403.9	618.2	584.7	297.8
Dec.	283.1	583.5	199.2	385.8	636.7	575.6	316.0

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**			
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 — Dec.	6.25	4.50	4.87	11.12	6.12	4.31	4.81	11.06
1987 — 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.	7.19	4.06	4.06	10.50	7.94	4.31	4.44	11.00
Sept.	8.37	5.00	4.56	10.37	9.00	5.25	4.81	10.69
Oct.	7.62	4.50	4.12	9.44	8.00	4.62	4.44	9.50
Nov.	7.94	4.44	3.94	8.94	8.19	4.44	4.12	9.12
Dec.	7.38	4.32	3.44	8.91	7.63	4.32	3.75	9.44
1988 — Jan.	6.81	4.13	3.19	8.81	7.25	4.25	3.57	9.38
	3-month US dollar premium (−)/discount (+)				**12-month US dollar premium (−)/discount (+)**			
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 — Dec.		1.75	1.38	−4.87		1.81	1.31	−4.94
1987 — 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
Sept.		3.37	3.81	−2.00		3.75	4.19	−1.69
Oct.		3.12	3.50	−1.82		3.38	3.56	−1.50
Nov.		3.50	4.00	−1.00		3.75	4.07	−0.93
Dec.		3.06	3.94	−1.53		3.31	3.88	−1.81
1988 — Jan.		2.68	3.62	−2.00		3.00	3.68	−2.13

Sources: Morgan Guaranty, *World Financial Markets.*

Lira exchange rates and the price of gold

(period average)

	Lire per unit of currency								Gold price (dollars per ounce) (1)
	US dollar	Japanese yen	Deutsche-mark	French franc	Pound sterling	Swiss franc	SDR	ECU	
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	8.8684	686.98	215.07	2,185.5	830.61	1,747.5	1,461.9	390.90
1987	1,296.8	8.9802	721.65	215.74	2,123.8	870.44	1,676.2	1,494.7	484.10
1985 — 4th qtr.	1,751.7	8.4597	677.37	222.00	2,515.0	820.74	1,888.8	1,494.1	327.00
1986 — 1st qtr.	1,599.6	8.5236	680.94	221.77	2,302.3	808.52	1,799.4	1,476.1	344.00
2nd "	1,538.9	9.0696	685.67	215.56	2,321.9	825.61	1,786.7	1,475.7	346.75
3rd "	1,436.9	9.2179	688.50	211.85	2,141.3	851.35	1,728.3	1,454.4	423.20
4th "	1,389.5	8.6627	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	459.50
4th "	1,248.5	9.2156	732.27	216.89	2,188.3	891.33	1,676.4	1,513.6	484.10
1986 — 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	2,154.5	872.49	1,692.0	1,499.6	459.50
Oct.	1,303.1	9.0922	723.03	216.37	2,164.5	871.32	1,693.1	1,500.4	468.80
Nov.	1,239.4	9.1601	736.91	216.96	2,199.7	896.82	1,672.4	1,520.0	492.50
Dec.	1,202.9	9.3944	736.88	217.35	2,200.6	905.85	1,663.7	1,520.4	484.10
1988 — Jan.	1,215.0	9.5392	735.54	217.93	2,190.2	903.61	1,673.3	1,519.2	458.00

(1) End-of-period data.

Nominal effective exchange rates (1)

(indices, 1980 = 100)

	US	Canada	Japan	Germany	France	UK	Italy	Switzerland
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
1987	97.5	88.6	171.0	119.1	78.7	77.0	73.7	127.4
1985 — 4th qtr.	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	89.2	169.7	118.6	78.6	77.3	73.2	126.8
4th "	93.3	88.5	177.6	120.1	78.4	79.1	73.0	129.3
1986 — 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	118.4	78.4	76.9	73.2	126.9
Sept.	97.2	89.3	173.0	118.7	78.6	77.7	73.3	127.0
Oct.	96.9	89.6	171.8	118.9	78.6	78.2	73.3	126.9
Nov.	93.0	88.0	176.8	120.7	78.2	79.4	72.7	129.7
Dec.	90.1	87.9	184.0	120.7	78.5	79.7	72.8	131.2
1988 — Jan.	89.9	89.5	185.9	120.2	78.6	79.0	72.7	130.7

(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.*

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Table a10

Real effective exchange rates (1)

(indices, 1980 = 100)

	US	Canada	Japan	Germany	France	UK	Italy	Switzerland
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 — 3rd qtr.	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.	96.9	101.2	121.5	103.4	101.0	88.3	106.3	106.0
2nd "	94.2	100.8	127.5	102.5	100.6	92.7	105.0	106.5
3rd "	96.2	102.3	124.6	102.2	100.5	92.5	104.9	105.4
1986 — 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	100.1	121.5	103.7	100.9	86.8	106.6	106.4
Feb.	96.9	101.4	121.0	103.8	101.3	87.2	106.5	106.0
Mar.	96.0	102.1	122.1	102.8	100.7	91.0	105.8	105.7
Apr.	93.9	101.7	127.7	102.4	100.7	92.0	105.6	106.5
May	93.5	100.0	128.7	102.7	100.5	93.4	104.7	107.1
June	95.3	100.7	126.1	102.5	100.6	92.6	104.7	105.9
July	97.1	102.1	121.9	102.4	100.8	92.5	104.4	105.4
Aug.	97.0	102.0	124.5	102.1	100.5	91.8	104.7	105.4
Sept.	94.5	102.7	127.4	102.0	100.3	93.0	105.6	105.5
Oct. (2)	94.5	102.8	126.3	102.0	100.1	93.8	105.8	106.1
Nov. (2)	90.7	101.3	128.8	103.5	99.6	95.8	104.6	108.2

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 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)	1987 March	1987 June	1987 September
Industrial countries	118,552	132,476	134,070
OPEC countries	3,407	3,530	3,567
Other developing countries	9,230	9,854	9,577
of which: Latin America	*5,849*	*6,072*	*6,057*
Africa	*1,416*	*1,586*	*1,399*
Asia	*1,057*	*1,243*	*1,289*
Middle East	*908*	*953*	*832*
Eastern Europe	6,453	7,525	7,154
Offshore centres	11,149	14,054	12,453
International organizations	706	750	1,022
Total	**149,497**	**168,189**	**167,843**
Memorandum item:			
"Baker Plan" countries:			
Argentina	1,311	1,480	1,543
Bolivia	1	1	1
Brazil	1,275	1,306	1,282
Chile	258	249	250
Colombia	205	203	214
Ivory Coast	54	51	44
Ecuador	238	199	194
Philippines	199	192	191
Yugoslavia	503	415	362
Morocco	370	498	474
Mexico	1,850	1,941	1,929
Nigeria	167	208	178
Peru	327	313	275
Uruguay	37	36	28
Venezuela	636	635	618
Total	**7,431**	**7,727**	**7,583**
Bulgaria	248	261	279
Czechoslovakia	147	160	145
Poland	533	1,562	1,526
German Democratic Republic	950	1,053	965
Romania	380	201	186
Hungary	503	502	500

(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	Machinery, 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 — 2nd qtr. ..	0.6	0.2	0.6	0.4	—	0.2	1.0	2.0	−1.4
3rd " ..	1.0	−1.1	0.6	−1.4	1.1	−0.2	1.1	−1.3	1.3
4th " ..	0.8	4.6	1.5	1.1	0.1	0.6	0.6	2.3	4.6
1986 — 1st qtr. ..	−0.3	2.0	0.1	−0.8	0.1	−0.4	0.7	2.6	−3.0
2nd " ..	2.1	−2.7	1.1	0.1	3.2	1.7	0.7	−3.4	5.7
3rd " ..	0.4	6.8	1.7	0.5	0.2	0.3	0.8	8.3	0.1
4th " ..	0.2	−4.9	−0.9	−1.6	−0.3	−0.9	1.2	—	−7.1
1987 — 1st qtr. ..	−0.1	6.6	1.2	0.2	0.4	0.3	1.5	1.6	1.1
2nd " ..	1.8	3.5	2.2	1.5	3.8	2.7	0.9	5.7	2.2
3rd " ..	0.5	1.6	0.7	−0.5	−2.0	−1.2	—	−3.6	8.7
				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 — 2nd qtr. ..	2.5	2.5	2.5	2.2	2.0	2.1	2.5	3.4	1.8
3rd " ..	1.9	−1.9	1.2	1.6	1.8	1.6	1.9	−1.3	1.0
4th " ..	1.3	−2.1	0.6	1.1	1.4	1.3	1.8	−2.2	−0.9
1986 — 1st qtr. ..	2.2	−6.3	0.6	0.2	1.2	0.7	1.4	1.2	−2.8
2nd " ..	2.2	−7.6	0.8	0.9	0.8	0.8	1.1	3.6	−2.4
3rd " ..	1.9	−7.8	0.1	0.6	1.3	1.0	1.3	−3.9	−1.2
4th " ..	1.7	1.9	2.0	1.1	0.5	0.8	0.9	6.0	1.9
1987 — 1st qtr. ..	0.9	0.5	0.5	0.7	1.4	1.0	1.1	−1.8	0.1
2nd " ..	1.9	3.9	2.1	1.0	1.1	1.0	1.2	7.1	1.9
3rd " ..	0.4	0.9	0.4	0.8	1.0	0.9	1.6	−1.0	−1.2

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	−49.1	−52.6	−14.4	17.3
1983	92.3	94.2	92.6	90.9	−51.2	−43.8	−49.0	−8.5	13.0
1984	95.4	96.3	94.4	95.2	−27.4	−26.7	−24.1	7.5	7.8
1985	96.5	97.5	99.2	94.9	−22.7	−29.7	−21.1	7.7	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	100.7	97.3	−48.3	−45.8	−45.8	−7.7	15.7
2nd " ..	95.7	97.4	96.8	94.1	−50.2	−47.5	−50.9	−11.9	18.0
3rd " ..	94.8	97.1	94.5	93.4	−55.7	−52.1	−54.3	−17.2	19.7
4th " ..	92.6	97.2	91.2	90.0	−60.1	−53.1	−59.3	−20.9	16.0
1983 — 1st qtr. ..	91.7	95.9	91.2	89.0	−57.3	−52.0	−57.2	−17.6	15.3
2nd " ..	91.0	93.4	90.8	89.4	−54.9	−43.4	−52.9	−11.7	17.7
3rd " ..	92.5	93.6	93.5	91.4	−50.0	−45.5	−46.3	−5.5	13.3
4th " ..	94.2	93.9	95.1	94.0	−42.6	−34.4	−39.6	0.7	5.7
1984 — 1st qtr. ..	93.2	93.1	92.0	93.7	−34.9	−30.1	−30.9	5.2	11.3
2nd " ..	95.3	96.9	92.0	95.4	−28.5	−22.2	−25.1	9.4	6.7
3rd " ..	97.0	98.0	96.6	96.5	−25.3	−25.0	−21.7	7.4	8.7
4th " ..	96.2	97.3	96.9	95.1	−21.0	−29.6	−18.5	7.9	4.7
1985 — 1st qtr. ..	96.2	96.7	98.6	94.9	−23.2	−29.0	−21.1	7.0	6.0
2nd " ..	96.7	97.9	98.8	95.1	−25.9	−30.6	−23.7	5.9	8.3
3rd " ..	96.5	97.8	99.0	94.8	−20.1	−29.2	−19.0	8.6	5.3
4th " ..	96.7	97.6	100.3	94.9	−21.5	−30.1	−20.5	9.1	4.7
1986 — 1st qtr. ..	98.8	100.6	102.0	96.4	−24.9	−25.9	−21.9	8.8	4.3
2nd " ..	98.6	100.1	103.1	95.9	−16.2	−24.4	−18.2	11.4	8.7
3rd " ..	98.8	100.4	102.4	96.3	−18.4	−23.4	−17.1	11.4	4.0
4th " ..	100.5	103.2	104.4	97.2	−15.6	−22.0	−14.8	13.4	2.7
1987 — 1st qtr. ..	101.3	103.9	103.6	98.7	−12.2	−25.0	−11.9	12.9	4.0
2nd " ..	103.4	104.7	106.3	101.6	−9.5	−27.9	−11.5	9.6	1.7
3rd " ..	102.6	104.6	103.2	100.9	−8.0	−25.9	−8.5	9.8	−4.3

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					Unemployment	Labour force	Unemployment rate (%)		Participation rate (%)
	Agriculture	Industry excluding construction	Construction	Other	Total			(2)	(3)	
1982	2,523	5,450	2,087	10,444	20,494	2,052	22,545	9.1	10.7	40.3
1983	2,525	5,290	2,062	10,680	20,557	2,263	22,821	9.9	11.8	40.6
1984	2,426	5,087	1,956	11,179	20,648	2,304	22,933	10.0	12.0	40.7
1985	2,297	4,975	1,921	11,550	20,742	2,382	23,117	10.3	12.1	40.9
1986	2,242	4,940	1,883	11,795	20,860	2,611	23,468	11.1	12.8	41.5
1983 — 1st qtr.	2,493	5,334	2,060	10,658	20,545	2,229	22,775	9.8	11.6	40.5
2nd "	2,514	5,289	2,058	10,712	20,572	2,278	22,850	10.0	11.9	40.7
3rd "	2,557	5,245	2,067	10,700	20,569	2,301	22,870	10.1	11.8	40.7
4th "	2,535	5,201	2,029	10,838	20,603	2,350	22,953	10.2	12.0	40.8
1984 — 1st qtr.	2,467	5,140	1,973	10,998	20,578	2,335	22,913	10.2	12.0	40.7
2nd "	2,409	5,082	1,964	11,147	20,601	2,293	22,895	10.0	11.9	40.6
3rd "	2,385	5,033	1,941	11,359	20,718	2,276	22,993	9.9	12.0	40.8
4th "	2,327	4,993	1,941	11,439	20,699	2,303	23,002	10.0	12.1	40.8
1985 — 1st qtr.	2,288	4,972	1,957	11,476	20,693	2,323	23,016	10.1	12.2	40.7
2nd "	2,315	4,967	1,922	11,585	20,789	2,366	23,155	10.2	12.0	41.0
3rd "	2,305	4,977	1,887	11,623	20,791	2,439	23,231	10.5	12.1	41.1
4th "	2,307	4,951	1,902	11,661	20,821	2,495	23,316	10.7	12.2	41.3
1986 — 1st qtr.	2,272	4,961	1,899	11,739	20,871	2,558	23,429	10.9	12.5	41.4
2nd "	2,214	4,955	1,877	11,778	20,824	2,590	23,414	11.1	12.8	41.4
3rd "	2,211	4,919	1,869	11,851	20,850	2,663	23,512	11.3	12.8	41.5
4th "	2,229	4,920	1,848	11,917	20,913	2,733	23,646	11.6	12.9	41.8
1987 — 1st qtr.	2,228	4,864	1,848	11,937	20,877	2,751	23,629	11.6	13.0	41.7
2nd "	2,187	4,852	1,866	11,927	20,832	2,853	23,685	12.0	13.4	41.8

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.

Table a15

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		
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
1987	3.4	6.1	1.2	2.6					4.6	5.4
1985 — 2nd qtr.	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 "	3.7	6.2	3.9	4.1	4.0	5.2	5.4	4.9	4.6	5.2
4th "	4.1	7.0	4.4	4.6					5.2	5.6
1986 — 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.	4.1	6.7	4.0	4.3	4.1	5.8	5.5	5.2	5.0	5.4
Oct.	4.1	6.9	4.2	4.5	5.1	5.8	5.4	5.5	5.3	5.6
Nov.	4.1	7.0	4.6	4.6	4.8	5.9	5.2	5.4	5.2	5.7
Dec.	4.2	7.2	4.5	4.7					5.1	5.7
1988 — Jan.									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)
1982	101.4	104.3	95.2	115.5	99.2	74.3	102.4	98.2
1983	103.1	109.0	102.2	122.9	103.4	72.2	106.2	100.7
1984	106.7	110.9	104.4	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	107.5	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	114.5	85.3	106.0	101.8
3rd "	104.3	105.4	110.6	126.9	116.4	92.4	107.9	104.0
4th "	105.0	106.0	119.1	127.8	117.7	95.7	109.4	106.2
1987 — 1st qtr.	103.7	106.0	117.9	126.1	116.4	101.8	108.5	106.3
2nd "	103.1	105.1	111.2	126.0	115.6	102.2	107.2	105.0
3rd "	103.4	105.2	111.0	127.0	114.5	99.5	107.4	104.9
1986 — Oct.	104.7	105.7	119.5	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	103.0	106.8	104.7
June	102.9	104.9	110.9	125.9	115.3	100.8	107.0	104.7
July	102.8	104.5	110.5	126.1	114.3	98.7	106.7	104.4
Aug.	103.3	105.1	111.4	126.9	114.5	98.2	107.3	104.7
Sept.	104.2	106.0	111.1	128.1	114.6	101.5	108.0	105.6
Oct.	104.3	106.3	110.4	128.4	114.3	101.9	108.1	105.8
Nov. (3)	102.5	106.2	108.3	126.8	112.0	107.2	106.7	105.1

(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	Income from capital	Other	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)
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	−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
1987 (5)								1,637	5,127	−6,764
1985 — 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	359	−546	117	−70	−1,219	−359	−1,578	2,274	−696
Mar.	−1,072	544	−947	206	−197	−1,269	−805	−2,074	2,928	−854
Apr.	−1,044	687	−1,115	164	−264	−1,308	3,595	2,287	−1	−2,286
May	−136	1,127	−802	344	669	533	1,022	1,555	2,182	−3,737
June	−345	1,240	−928	564	876	531	133	664	−378	−286
July	415	1,666	−778	406	1,294	1,709	−250	1,459	−567	−892
Aug.	1,375	1,120	−453	672	1,339	2,714	−2,011	703	−1,464	761
Sept.	−212	1,248	−683	450	1,015	803	−2,500	−1,697	−331	2,028
Oct. (4)	356	952	−850	333	435	791	−1,442	−651	1,953	−1,302
Nov. (4)	−271	488	−628	7	−133	−404	271	−133	−550	683
Dec. (4)	−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	261	−949	673	−15	−768	2,210	1,442	2,377	−3,819
Mar.	−579	571	−625	−93	−147	−726	1,652	926	273	−1,199
Apr.	−526	886	−684	681	883	357	1,222	1,579	−883	−696
May	−1,560	941	−1,226	334	49	−1,511	−1,354	−2,865	1,011	1,854
June	−1,454	1,543	−876	1,060	1,727	273	−2,776	−2,503	788	1,715
July	26	1,664	−1,098	53	619	645	−535	110	−2,019	1,909
Aug.	−32	1,156	−502	398	1,052	1,020	−2,031	−1,011	−3,214	4,225
Sept.	−895	1,049	−653	520	916	21	1,151	1,172	2,973	−4,145
Oct.								728	1,535	−2,263
Nov.								1,371	1,795	−3,166
Dec.								1,188	−246	−942

(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) Unrevised figures. — (5) Annual total does not coincide with the sum of the monthly totals because of the provisional nature of the data.

External position of BI-UIC (1)

	Short-term position: Assets: Gold	Convertible currencies	ECUs	SDRs	Reserve position in the IMF	Liabilities	Balance (2)	Medium and long-term position	Total official reserves (2)
	(billions of lire)								
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 — 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	14,570	11,258	1,287	1,796	−263	64,948	−826	64,122
Aug.	36,300	10,201	11,235	1,294	1,793	−159	60,664	−830	59,834
Sept. ...	37,646	20,403	5,142	1,293	1,790	−87	66,187	−830	65,357
Oct.	37,646	16,456	12,193	1,286	1,738	−108	69,211	−838	68,373
Nov.	37,646	19,341	12,240	1,278	1,680	−115	72,070	−833	71,237
Dec.	39,813	20,248	12,220	1,253	1,691	−71	75,154	−841	74,313
	(millions of dollars)								
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 — 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	10,841	8,376	958	1,336	−196	48,681	−615	48,067
Aug.	27,366	7,762	8,549	985	1,364	−121	45,905	−632	45,273
Sept. ...	28,387	15,385	3,877	975	1,350	−66	49,908	−626	49,282
Oct.	28,387	12,872	9,537	1,006	1,359	−84	53,077	−655	52,422
Nov.	28,387	16,000	10,125	1,057	1,390	−95	56,864	−689	56,175
Dec.	34,050	17,317	10,451	1,072	1,446	−61	64,275	−719	63,556

(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					
1982	114,048	40,515	154,563	–175,848	–35,440	–211,288	–56,725	–16,074	–72,799	–72,087	–1,298
1983	143,554	36,700	180,254	–202,236	–50,842	–253,078	–72,824	–15,436	–88,260	–88,260	—
1984	160,627	41,502	202,129	–246,304	–48,761	–295,065	–92,936	–2,759	–95,695	–95,695	—
1985	177,645	46,642	224,287	–283,736	–54,988	–338,724	–114,437	–8,190	–122,627	–112,224	–2,188
1986	202,091	51,943	254,034	–307,513	–63,681	–371,194	–117,160	6,997	–110,163	–110,163	–606
1987 (3)	224,800	58,357	283,157	–373,883	–68,023	–441,906	–158,749	44,705	–114,044	–113,623	–132
1985 — 4th qtr.	57,172	24,882	82,054	–80,601	–20,367	–100,968	–18,914	–10,246	–29,160	–28,731	–203
1986 — 1st qtr.	42,727	7,363	50,090	–62,849	–1,649	–64,498	–14,408	–11,951	–26,359	–26,359	–337
2nd "	55,143	11,092	66,235	–69,446	–14,814	–84,260	–18,025	–1,952	–19,976	–19,976	–79
3rd "	37,669	11,304	48,973	–87,125	–17,475	–104,600	–55,627	19,415	–36,212	–36,212	–127
4th "	66,552	22,183	88,735	–88,093	–29,743	–117,835	–29,100	1,484	–27,616	–27,616	–64
1987 — 1st qtr.	44,613	11,285	55,898	–68,721	–11,776	–80,497	–24,599	–267	–24,867	–24,867	–41
2nd "	59,020	9,952	68,972	–95,762	–12,641	–108,403	–39,432	17,547	–21,885	–21,885	–31
3rd "	43,265	12,075	55,340	–71,012	–17,195	–88,207	–32,867	–5,580	–38,448	–38,305	–33
4th " (3)	77,902	25,046	102,948	–138,388	–26,411	–164,799	–61,851	33,006	–28,845	–28,567	–27
1986 — Dec.	35,391	15,597	50,988	–38,404	–10,785	–49,189	1,800	–7,615	–5,815	–5,815	–42
1987 — Jan.	16,053	4,206	20,259	–17,689	–713	–18,402	1,857	–2,595	–738	–738	—
Feb.	12,436	3,617	16,053	–21,775	–1,114	–22,889	–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	–11,090	–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	3,711	32,028	–42,703	–4,357	–47,060	–15,033	18,580	3,547	3,547	—
July	15,291	3,370	18,661	–28,496	–7,386	–35,882	–17,221	3,299	–13,922	–13,779	–18
Aug.	15,813	6,388	22,201	–26,628	–4,362	–30,990	–8,789	–677	–9,465	–9,465	–1
Sept.	12,161	2,317	14,478	–15,889	–5,447	–21,336	–6,858	–8,202	–15,060	–15,060	–14
Oct.	19,339	4,294	23,633	–25,590	–3,575	–29,165	–5,533	–3,247	–8,780	–8,780	–15
Nov. (3)	18,473	2,952	21,425	–49,332	–2,963	–52,295	–30,869	18,679	–12,190	–12,190	–3
Dec. (3)	40,090	17,800	57,890	–63,466	–19,873	–83,339	–25,449	17,574	–7,875	–7,597	–9

(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 Southern 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 BI					
1982	23,473	27,378	32,604	8,883	6,598	3,683	2,570	1,586	72,799	12,676
1983	69,315	66,652	11,071	−1,125	−8,622	4,939	1,259	2,801	88,260	4,514
1984	62,763	56,738	9,300	13,288	18,555	6,365	2,271	1,709	95,695	10,027
1985	93,207	78,567	13,181	3,689	6,340	9,067	2,937	545	122,627	27,519
1986	87,073	53,534	9,697	1,673	4,525	11,271	856	−407	110,163	10,994
1987 (3)	58,339	35,268	25,172	10,312	9,272	13,200	5,888	1,134	114,044	9,412
1985 — 4th qtr.	25,247	22,727	−5,189	447	−782	7,294	735	625	29,160	14,250
1986 — 1st qtr.	17,909	11,345	−2,039	9,572	8,266	1,311	−114	−279	26,359	11,084
2nd "	31,584	19,888	400	−12,839	−10,806	271	313	248	19,976	−10,802
3rd "	15,519	7,517	10,352	9,367	9,126	1,216	252	−494	36,212	3,229
4th "	22,061	14,785	984	−4,427	−2,061	8,474	406	118	27,616	7,484
1987 — 1st qtr.	22,637	16,410	−6,986	7,632	6,596	2,045	455	−916	24,867	1,682
2nd "	21,589	8,425	1,562	−2,015	−1,490	975	416	−643	21,885	2,500
3rd "	12,163	9,600	19,796	3,255	3,452	2,022	515	697	38,448	9,399
4th " (3)	1,950	833	10,800	1,440	713	8,157	4,502	1,995	28,845	−4,169
1986 — Dec.	3,614	1,970	−314	−4,704	−3,918	6,734	339	145	5,815	317
1987 — Jan.	1,910	2,570	−5,533	2,141	2,250	2,743	92	−614	738	7,515
Feb.	12,278	9,890	−1,698	−22	−763	15	402	144	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	639
May	8,704	4,796	2,651	−2,450	−1,578	396	477	220	9,997	3,379
June	188	−1,093	−3,012	−576	−875	801	−38	−909	−3,547	−1,518
July	5,844	5,444	6,506	203	579	692	41	636	13,922	5,177
Aug.	2,440	1,683	5,397	750	672	800	107	−29	9,465	3,180
Sept.	3,880	2,474	7,892	2,302	2,201	530	366	90	15,060	1,042
Oct.	793	891	7,307	−2,344	−2,703	168	1,391	1,465	8,780	−3,485
Nov. (3)	1,356	445	4,761	2,156	2,279	977	2,709	231	12,190	−2,081
Dec. (3)	−198	−503	−1,268	1,628	1,138	7,012	402	299	7,875	1,397

(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
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	39,322	23,613	1,938	273,162	78,670	351,832	332,538
1983 — Dec. . . .	149,832	137,772	44,261	29,312	2,147	363,325	79,631	442,955	421,194
1984 — Mar. . . .	165,901	134,604	45,867	30,616	2,196	379,184	82,914	462,098	439,590
June . . .	182,556	140,249	45,970	32,570	2,246	403,590	80,740	484,330	459,849
Sept. . .	194,300	149,936	46,440	34,314	2,290	427,280	83,208	510,488	484,290
Dec. . . .	207,740	152,691	50,626	38,024	2,379	451,459	92,863	544,322	516,062
1985 — Mar. . . .	230,366	146,955	52,141	38,837	2,429	470,728	102,991	573,719	545,436
June . . .	250,648	159,816	52,409	37,357	2,434	502,663	102,664	605,327	577,103
Sept. . .	272,794	165,217	52,399	35,940	2,457	528,806	106,015	634,821	608,925
Dec. . . .	294,558	150,814	59,693	35,925	2,451	543,441	120,286	663,727	638,563
1986 — Mar. . . .	306,249	153,075	61,004	34,931	2,384	557,642	131,536	689,178	665,513
June . . .	335,484	154,261	61,274	35,712	2,399	589,131	120,596	709,727	685,577
Sept. . .	359,093	163,507	62,490	34,723	2,457	622,270	123,504	745,774	721,947
Dec. . . .	374,514	159,187	70,964	37,444	2,475	644,583	130,955	775,538	750,192
1987 — Jan. . . .	370,372	153,757	73,707	37,330	2,502	637,668	138,381	776,049	750,904
Feb. . . .	388,028	152,690	73,722	37,381	2,513	654,334	132,887	787,220	761,981
Mar. . . .	401,462	154,059	73,009	36,788	2,515	667,833	132,528	800,362	775,692
Apr. . . .	413,777	157,482	72,788	36,801	2,518	683,366	133,328	816,694	791,903
May . . .	417,895	158,535	73,184	36,736	2,566	688,916	136,753	825,669	801,692
June . . .	418,949	156,222	73,985	37,638	2,566	689,360	135,268	824,627	798,408
July	422,520	159,928	74,677	37,667	2,587	697,380	140,298	837,678	812,277
Aug. . . .	421,755	166,244	75,476	37,790	2,593	703,859	143,641	847,500	821,818
Sept. . .	428,201	172,444	76,007	36,295	2,633	715,579	144,446	860,025	836,582

(1) Rounding may cause discrepancies in totals.

Monetary base (1)

(billions of lire)

	SOURCES						
	Foreign sector	Treasury: Total	Treasury: of which: BI-UIC government securities	Treasury: of which: Treasury overdraft with BI	*Memorandum item: undrawn overdraft facility*	Refinancing	Other sectors
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 — 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	*2,780*	3,439	−12,445
June	15,159	133,910	71,796	57,814	*3,769*	3,607	−9,770
July	13,003	139,087	76,753	58,254	*3,529*	4,870	−10,267
Aug.	8,756	142,266	79,182	59,064	*2,719*	4,030	−10,688
Sept.	12,885	143,309	77,884	61,266	*705*	3,260	−14,554
Oct.	14,919	139,824	76,765	58,562	*4,335*	3,363	−11,750
Nov. (2)	18,084	137,743	72,516	60,840	*2,056*	4,105	−12,515
Dec.(2)	19,296	139,140	72,279	61,980	*916*	3,719	−9,714

	USES						
	Non-state sector: Total	Non-state sector: of which: notes and coin	Banks: Compulsory reserves	Banks: Deposit against overshoots of lending ceiling	Banks: Liquidity	Banks: Total	TOTAL MONETARY BASE
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 — 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	141,184
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	50,294	50,188	93,322	—	3,077	96,399	146,693
Aug.	47,567	47,389	93,046	—	3,752	96,798	144,364
Sept.	47,777	47,574	92,515	—	4,607	97,122	144,900
Oct.	47,822	47,662	93,414	648	4,472	98,534	146,356
Nov. (2)	48,390	48,220	94,233	328	4,467	99,028	147,418
Dec. (2)	52,982	52,864	93,847	657	4,956	99,460	152,442

(1) Rounding may cause discrepancies in totals. — (2) Provisional.

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
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
1987 (2)	6,740	9,412	−709	−1,552	13,892	4,611	8,739	657	−115
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	1,310	762	847	—	−299
May	−1,835	3,379	317	−1,305	556	867	667	—	−979
June	−1,470	−1,518	167	2,674	−145	397	−773	—	231
July	−2,156	5,177	1,263	−497	3,788	3,130	1,352	—	−694
Aug.	−4,248	3,180	−840	−420	−2,328	−2,726	−276	—	675
Sept.	4,130	1,042	−770	−3,867	535	210	−531	—	856
Oct.	2,034	−3,485	103	2,804	1,456	44	899	648	−135
Nov. (2)	3,166	−2,081	742	−765	1,062	568	819	−320	−5
Dec. (2)	1,212	1,397	−386	2,801	5,024	4,592	−386	329	489

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
1984	95,695	−13,187	−54,436	−2,796	−5,012	2,661	−75,431	−10,237	10,027
1985	122,627	1,802	−68,695	−14,504	−1,480	4,933	−82,877	−12,231	27,519
1986	110,163	−6,455	−47,664	−31,622	−1,823	1,913	−87,563	−11,606	10,994
1987 (2)	114,044	−18,667	−31,195	−21,125	−14,590	4,140	−85,577	−19,055	9,412
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	−3,547	2,569	1,003	−1,179	−493	−461	1,900	129	−1,518
July	13,922	−6,044	−3,385	−1,339	3,374	3,481	−7,394	−1,351	5,177
Aug.	9,465	−6,386	−1,396	−1,050	3,305	3,400	−5,528	−757	3,180
Sept.	15,060	−5,208	−1,165	−1,553	−5,488	−6,088	−13,414	−604	1,042
Oct.	8,780	−5,070	−831	−529	−2,827	−1,729	−9,257	−3,008	−3,485
Nov. (2)	12,190	−4,615	−882	−906	−4,130	−1,920	−10,533	−3,738	−2,081
Dec. (2)	7,875	490	−212	−824	1,386	1,609	840	−7,318	1,397

(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 subscriptions	Other purchases	Sales	
			Treasury bills				
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
1987 (2)	32,525	26,021	−11,009	−1,035	−501	—	−4,505
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	170	457	−270	—	−273
July	2,802	2,339	2,272	1,431	871	—	2,735
Aug.	7	996	313	950	−640	—	−676
Sept.	5,488	2,804	−1,161	−338	−231	—	1,523
Oct.	4,197	1,960	−3,210	−979	—	—	−973
Nov. (2)	4,089	3,943	−2,896	−265	—	—	−2,750
Dec. (2)	486	1,264	−1,097	−721	254	—	−1,875
			Treasury credit certificates				
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
1987 (2)	5,870	2,100	−2,468	—	−2,415	—	1,302
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	2,156	—	−264	—	175	—	1,892
Aug.	90	—	3,339	—	3,747	—	3,429
Sept.	966	—	−3,875	—	−4,652	—	−2,909
Oct.	54	—	1	—	−645	—	55
Nov. (2)	152	584	−1,436	—	—	1,655	−1,868
Dec. (2)	19	731	2,163	—	—	−1,655	1,451

(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				
				of which: repurchase agreements			
	Subscrip-tions	Redemptions	Total	Financing of subscriptions	Other purchases	Sales	Variations in BI-UIC portfolio
			Other government securities				
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
1987 (2)	5,705	2,420	−1,085	—	−189	—	2,200
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	—	−605	—	−345	—	−602
July	81	1,117	1,366	—	1,354	—	330
Aug.	24	—	−347	—	−657	—	−323
Sept.	540	—	−452	—	−867	—	88
Oct.	67	641	375	—	−105	—	−199
Nov. (2)	—	—	369	—	—	—	369
Dec. (2)	—	—	187	—	421	—	187
			TOTAL				
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
1987 (2)	44,100	30,541	−14,562	−1,035	−3,105	—	−1,003
1987 — Jan.	2,121	3,877	7,103	−1,694	9,079	—	5,347
Feb.	1,023	730	−5,642	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	2,918	—	5,796
June	628	1,059	−493	457	−918	—	−924
July	5,039	3,456	3,374	1,431	2,050	—	4,957
Aug.	121	996	3,305	950	2,450	—	2,430
Sept.	6,994	2,804	−5,488	−338	−5,750	—	−1,298
Oct.	4,318	2,601	−2,834	−979	−750	—	−1,117
Nov. (2)	4,241	4,527	−3,963	−265	—	1,655	−4,249
Dec. (2)	505	1,995	1,253	−721	675	−1,655	−237

(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.

7

Repurchase agreements

(billions

Temporary purchases (2)

	Amount offered	Amount taken up	Maturity (days)	Yields	
				Minimum	Weighted average
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
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

	Amount offered	Amount taken up	Maturity (days)	Yields	
				Minimum	Weighted average
5 Aug.	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 Dec.	1,000	1,000	20-29	11.05	11.15
4 "	10,000	10,000	4-14	11.30	11.63
7 "	2,750	2,750	2-9	10.75	11.24
15 "	1,000	1,000	15-20	10.90	11.28
1988					
22 Jan.	8,000	8,000	1-9	10.90	11.48
25 "	5,500	5,500	2-4	10.85	11.13
28 "	7,000	7,000	3-10	10.95	11.46
2 Feb.	2,000	2,000	21	11.55	11.55
3 "	2,000	2,000	7-15	11.25	11.53
8 "	3,500	3,500	2-11	11.25	11.32

(1) Purchases at Treasury bill auctions by the syndicate of 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)
1 9 8 7			
15 Jan.	268	76	15
30 "	4,395	683	28
13 Feb.	810	305	14
27 "	3,696	997	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 "	7,506	2,720	11
14 Aug.	1,394	502	17
31 "	8,325	3,645	10
15 Sept.	892	581	17
30 "	6,285	2,328	4
16 Nov.	986	189	2
30 "	3,915	2,063	23
15 Dec.	994	316	15
30 "	7,740	1,577	5
1 9 8 8			
15 Jan.	2,652	911	16
29 "	9,931	1,626	5

Temporary sales (2)

	Amount offered	Amount taken up	Maturity (days)	Yields: Maximum	Yields: Weighted average
1 9 8 6					
18 Sept. ...	1,250	1,160	7	11.00	10.63
1 9 8 7					
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
6 Nov.	2,000	1635	19-24	11.95	11.55
11 " ...	1,000	585	19-26	11.95	11.92
20 " ...	1,500	1,500	10-17	11.60	11.54
1 9 8 8					
12 Jan. ...	2,000	2,000	3-13	10.50	9.44
20 " ...	1,000	420	5-9	11.50	11.22

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- 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
end- Oct. . .	13,000	91	11,354	11,354	—	1,646	13,000
mid- Nov. . .	3,000	91	2,559	2,559	—	441	3,000
end- Nov. . .	9,500	91	7,799	7,799	—	800	8,599
mid- Dec. . .	1,500	91	1,131	1,131	—	369	1,500
end- Dec. . .	6,000	91	7,315	6,000	—	—	6,000
1988 — mid- Jan. . . .	2,000	91	2,619	2,000	—	—	2,000
end- Jan. . . .	9,000	91	10,341	8,941	59	—	9,000
6-month							
1987 — 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	1,344	—	800	2,144
end- Oct. . .	9,000	182	8,678	8,678	—	322	9,000
mid- Nov. . .	2,000	182	1,467	1,467	—	533	2,000
end- Nov. . .	8,000	182	7,832	7,832	—	168	8,000
mid- Dec. . .	1,250	183	1,262	1,250	—	—	1,250
end- Dec. . .	8,500	183	10,476	8,500	—	—	8,500
1988 — mid- Jan. . . .	2,000	182	3,359	2,000	—	—	2,000
end- Jan. . . .	10,000	182	16,433	9,941	59	—	10,000
12-month							
1987 — 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
end- Oct. . .	7,500	367	6,629	—	6,629	850	7,479
mid- Nov. . .	1,500	365	997	—	997	503	1,500
end- Nov. . .	7,500	366	5,855	—	5,855	1,645	7,500
mid- Dec. . .	1,250	366	1,133	—	1,133	117	1,250
end- Dec. . .	9,000	366	10,250	—	9,000	—	9,000
1988 — mid- Jan. . . .	2,000	367	2,497	—	2,000	—	2,000
end- Jan. . . .	12,000	367	13,739	—	12,000	—	12,000

Treasury bill auctions

(prices and yields)

	PRICES		YIELDS (1)					
			Simple			Compound		
	Floor	Average tender price	Floor-price	At auction		Floor-price	At auction	
				Competitive bid	Other		Competitive bid	Other
				3-month				
1987 — 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
end-Oct.	97.23	97.24	11.43	11.38	11.17	11.93	11.88	11.65
mid-Nov.	97.23	97.23	11.43	11.43	11.21	11.93	11.93	11.70
end-Nov.	97.23	97.23	11.43	11.43	11.21	11.93	11.93	11.70
mid-Dec.	97.25	97.25	11.34	11.34	11.13	11.83	11.83	11.60
end-Dec.	97.28	97.30	11.21	11.13	10.92	11.70	11.60	11.37
1988 — mid-Jan.	97.30	97.33	11.13	11.00	10.79	11.60	11.47	11.24
end-Jan.	97.31	97.36	11.09	10.88	10.66	11.56	11.33	11.10
				6-month				
1987 — 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
end-Oct.	94.57	94.50	11.74	11.67	11.56	12.09	12.01	11.89
mid-Nov.	94.47	94.47	11.74	11.74	11.63	12.09	12.09	11.97
end-Nov.	94.47	94.48	11.74	11.72	11.60	12.09	12.06	11.94
mid-Dec.	94.54	94.55	11.52	11.50	11.39	11.85	11.83	11.71
end-Dec.	94.60	94.63	11.39	11.32	11.21	11.71	11.64	11.52
1988 — mid-Jan.	94.66	94.69	11.31	11.25	11.13	11.63	11.56	11.45
end-Jan.	94.70	94.79	11.22	11.02	10.91	11.54	11.33	11.21
				12-month				
1987 — 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
end-Oct.	89.10	89.10	12.17	—	12.17	12.17	—	12.17
mid-Nov.	89.15	89.15	12.17	—	12.17	12.17	—	12.17
end-Nov.	89.15	89.15	12.14	—	12.14	12.14	—	12.14
mid-Dec.	89.35	89.35	11.89	—	11.89	11.89	—	11.89
end-Dec.	89.45	89.80	11.76	—	11.33	11.76	—	11.33
1988 — mid-Jan.	89.65	90.00	11.48	—	11.05	11.48	—	11.05
end-Jan.	89.85	90.40	11.24	—	10.56	11.24	—	10.56

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

Table a26

Interest rates

	Rates on BI-UIC loans		Yields					
	Base	Actual on fixed-term advances (1)	Treasury bill 3-month (2)	Treasury bill 6-month (2)	Treasury bill 12-month (2)	Treasury bill average (2) (3)	Treasury bonds	Bonds of industrial credit institutions
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 — Dec.	12.00	13.03	10.81	10.25	10.01	10.21	10.05	9.05
1987 — Jan.	12.00	13.20	10.81	10.19	9.93	10.09	9.78	8.97
Feb.	12.00	13.00	10.69	9.98	9.74	9.98	9.84	9.02
Mar.	11.50	12.50	10.57	9.92	9.68	9.96	10.03	9.13
Apr.	11.50	11.50	10.23	9.85	9.65	9.85	10.07	9.28
May	11.50	12.30	10.31	9.85	9.66	10.10	10.20	9.68
June	11.50	12.79	10.34	9.85	9.68	10.18	10.41	9.92
July	11.50	12.45	11.21	10.78	10.56	10.60	10.90	10.34
Aug.	12.00	13.18	11.15	10.92	10.62	10.95	11.30	10.71
Sept.	12.00	13.53	12.07	11.78	11.45	10.98	11.30	11.02
Oct.	12.00	—	11.84	11.98	12.09	11.96	11.41	11.01
Nov.	12.00	12.00	11.93	12.06	12.14	12.01	11.25	11.31
Dec.	12.00	12.37	11.64	11.66	11.39	11.56	10.50	11.19
1988 — Jan. (6)	12.00	12.17	11.36	11.37	10.63	11.07	10.29	10.76

	Bank rates (4)							
	Lending in lire			Deposit rates		Certificates of deposit		Interbank rates
	ABI prime rate (5)	Minimum	Average	Maximum	Average	6-month	12-month	
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 — Dec.	13.00	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.	»	11.75	13.27	9.67	»	9.49	9.60	11.52
Sept.	13.00	12.24	13.69	»	6.77	9.84	10.06	12.12
Oct.	»	12.52	14.15	9.77	6.83	10.03	10.22	11.54
Nov.	»	12.40	14.02	9.80	6.91	10.13	10.28	10.77
Dec.	»	12.34	13.80	9.81	6.94	10.18	10.29	10.76
1988 — Jan. (6)		12.23		9.78				10.54

(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 Banker's 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.

Table a27

Principal assets and liabilities of banks

(billions of lire)

	ASSETS								
		Credits						Interbank accounts	
		Loans							
	Bank reserves (1)	in lire (2)	in foreign currency	Treasury bills (3) (10)	Other securities (4) (10)	Shares and equity participation	Bad debts (5)	Total	of which: special credit institutions
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 — Nov.	88,043	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.	97,429	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	245,496	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.	95,209	249,344	27,372	17,489	179,386	13,371	23,537	83,997	7,298
Sept. ...	95,544	239,007	29,187	16,230	189,334	13,498	23,744	88,844	7,011
Oct.	96,954	241,426	31,924	21,881	189,418	13,646	23,967	89,106	8,052
Nov.	97,619	246,697	32,446	22,455	193,362	13,626	24,172	97,824	9,315
Dec. (11)	98,380	255,470	32,800						

	LIABILITES								
	Deposits (6)				Interbank accounts				
	Total	of which: current accounts	Other domestic funds (7)	Loans from BI-UIC	Total	of which: special credit institutions	Equity capital	Net foreign position (8)	Banker's acceptances issued (9)
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 — 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	29,783	232
Aug.	488,683	270,418	4,234	4,003	82,564	5,720	61,344	33,566	235
Sept. ...	494,545	275,719	3,546	3,229	86,413	5,226	61,724	34,487	682
Oct.	497,712	278,771	3,549	3,279	87,998	4,845	61,786	37,654	1,081
Nov.	496,484	276,502	3,753	6,078	93,259	4,771	61,717	....	1,206
Dec. (11)	532,200			5,700					

(1) Comprises lira liquidity (excluding deposits with the PO and the Deposits and Loans Fund), compulsory reserves, collateral in respect of banker's 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 banker's 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	
1984 — Dec.	4,257	4,964	15,023	125,302	66,144	32,927	4,585	9,193	−7,917
1985 — Dec.	3,575	4,601	16,441	135,988	72,323	36,096	3,781	8,593	−8,238
1986 — 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	5,186	13,643	158,106	85,036	43,407	4,270	7,472	−11,628
June	4,608	5,414	12,974	158,758	85,635	43,876	4,309	7,020	−9,046
July	5,985	6,849	12,600	160,981	86,943	44,539	4,302	7,020	−12,309
Aug.	5,917	6,745	12,902	161,203	86,616	44,957	4,260	7,019	−12,125
Sept. . . .	5,320	6,381	12,527	163,222	86,893	46,327	4,191	7,019	−11,585
Oct.	5,277	6,351	10,402	166,816	89,208	47,353	4,320	7,019	−11,296
Nov.	4,918	5,771	10,178	169,180	90,232	48,363	4,215	7,231	−11,443
Dec. (3) .				172.900					

	LIABILITIES								
	Certificates of deposit	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				
1984 — Dec.	23,480	89,554	35,871	33,605	8,159	4,912	4,771	2,422	17,852
1985 — Dec.	25,549	95,022	37,736	36,192	7,145	5,513	5,365	2,521	20,051
1986 — 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	4,430	6,715	2,649	24,253
July	28.241	108,176	44,136	42,505	5,048	3,759	6,752	2,674	24,793
Aug.	28,044	109,102	44,436	43,096	5,048	3,395	6,886	2,754	24,775
Sept. . . .	27,794	110,503	44,817	43,962	5,044	3,529	7,101	2,789	24,995
Oct.	28,190	111,472	45,651	44,391	5,043	4,019	7,066	2,822	25,000
Nov.	28,407	112,079	46,285	44,718	5,038	4,930	7,061	2,874	24,743

(1) Excluding financing of compulsory stockpiling. — (2) Gross of exchange rate variations. — (3) Partially estimated data.

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 Nov. 1987	% change in the 12 months ending		
		Dec. 86	June 87	Nov. 87		Dec. 86	June 87	Nov. 87
General government	8,741	−8.3	2.9	8.9	22.855	1.4	4.0	3.1
Credit and insurance institutions	16,528	30.7	50.9	13.1	9.141	57.5	50.7	15.7
Non-financial firms	221,660	7.8	13.3	7.4	115,891	11.9	9.0	13.7
Agriculture, forestry and fisheries	9,146	12.6	12.4	6.9	8,205	19.7	15.3	10.7
Industry	132,710	3.6	8.4	5.0	64,265	7.8	4.9	9.2
Mining and quarrying	2,552	0.0	55.1	22.5	1,126	−0.2	33.8	11.4
Food and related products	13,596	6.0	10.3	5.6	6,267	14.4	11.6	13.1
Textiles	10,039	−3.3	4.0	15.6	2,535	7.3	0.9	5.5
Clothing, footwear, hides & leather	10,080	9.7	14.1	12.3	1,236	11.3	14.2	15.9
Wood, wooden furniture & fittings	5,672	5.5	8.6	8.7	1,297	14.7	13.1	8.9
Basic metals	5,744	0.6	8.6	−9.1	3,859	4.2	6.5	28.6
Engineering	28,319	7.7	4.9	3.0	13,316	10.4	6.3	7.4
Vehicles	6,509	1.0	4.8	−0.5	3,454	−12.5	−8.9	−6.0
Non-ferrous mineral products	4,638	−5.1	−0.6	−1.0	2,634	9.1	5.0	11.7
Chemicals, oil coal products	10,320	−8.2	3.0	5.6	4.,345	3.4	0.4	−2.8
Rubber and plastic	3,519	1.6	6.9	15.5	1,239	3.7	5.7	8.2
Paper, printing, publishing and related products	4,608	−3.3	11.3	15.0	1,618	3.0	6.2	0.1
Still and motion picture equipment, sundry manufactures	1,035	10.9	15.7	13.5	397	17.4	13.4	23.3
Construction and plant installation	24,912	11.8	13.3	5.9	17,773	10.5	8.3	10.2
Production and distribution of power, gas and water	1,167	−17.1	8.1	−48.3	3,169	14.1	−18.3	24.7
Distributive trades, other commercial activities and miscellaneous services	61,836	16.8	20.2	14.3	20,642	20.4	23.9	30.3
Lodging and catering	2,793	19.6	22.7	13.7	2,406	19.5	19.9	25.4
Transport and communications	6,926	9.2	18.7	5.9	14,816	−1.1	−3.6	6.8
Coordination and financial services to enterprises	8,249	9.4	47.2	−2.0	5,557	117.1	47.7	37.6
Non-profit institutions, households and unclassifiable	12,349	32.3	22.1	12.4	4,527	7.8	50.4	59.7
TOTAL (RESIDENT CUSTOMERS)	259,278	9.5	15.2	8.0	152,414	12.2	10.8	13.0
of which: public enterprises	21,286	−7.9	21.0	−2.5	27,454	5.1	−0.1	10.1
of which: state controlled	17,657	−6.8	21.7	−0.9	21,507	8.1	2.9	4.2
leading private sector firms (1)	43,198	3.3	4.4	−10.9	31,936	16.0	10.2	6.3
other (1)	173,704	14.8	18.0	15.2	65,642	16.2	17.6	19.6

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 change in the sample.

Table a30

Net issues of securities

(billions of lire)

	ISSUERS			Total bonds and govern-ment securities	INVESTORS					Shares
	Public sector	Special credit insti-tutions	Public agencies and firms		BI-UIC	Deposits and Loans Fund	Banks	Investment funds	Other	
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
1987 (1)	56,378	11,519	3,888	71,785	1,541			−5,062		9,448
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.	22,851	1,385	1,278	25,514	−3,881	61	−7,609	2,249	34,694	2,466
2nd "	21,819	3,785	238	25,842	4,950	566	6,915	−68	13,479	3,027
3rd " (1)	12,249	2,987	1,079	16,315	2,541	−13	8,175	−4,709	10,321	2,392
4th " (1)	−541	3,362	1,293	4,114	−2,069			−2,534		1,563
1987 — Jan.	1,883	18	2	1,903	5,695	−23	−16,463	788	11,906	684
Feb.	12,442	121	317	12,880	−4,948	−20	1,805	1,025	15,018	293
Mar.	8,526	1,246	959	10,731	−4,628	104	7,049	436	7,770	1,489
Apr.	12,819	982	102	13,903	966	149	7,323	996	4,469	913
May	8,793	1,367	−121	10,039	4,620	−20	−713	3	6,149	502
June	207	1,436	257	1,900	−636	437	305	−1,067	2,861	1,612
July	5,736	606	615	6,957	2,227	−24	−1,847	−841	7,442	948
Aug.	2,596	895	69	3,560	3,136	−6	−364	−2,162	2,956	389
Sept. (1)	3,917	1,486	395	5,798	−2,822	17	10,386	−1,706	−77	1,055
Oct. (1)	240	957	452	1,649	−156	−9	−41	−2,198	4,053	988
Nov. (1)	245	640	887	1,772	−3,551	—	3,974	−415	1,764	212
Dec. (1)	−1,026	1,765	−46	693	1,638			79		363

(1) Provisional data.

Table a31

Issue conditions of government securities

ABI number	Treasury credit certificates								
	Maturity	Date of issue	Price at issue	Yield at issue (1)		Amount taken up (lire bn.)	Spread	First coupon	
				gross	net			gross	net
12878 (2)	18.2.97	18.2.87	99.00	10.81	10.14	6,000	0.75	10.55	9.8905
12879 (2)	1.3.97	1.3.87	99.00	10.59	9.93	5.000	0.75	10.35	9.7030
12882 (2)	1.4.97	1.4.87	99.00	10.59	9.93	11,500	0.75	10.35	9.7030
12885 (2)	1.5.97	1.5.87	99.00	10.55	9.89	8,000	0.75	10.35	9.7030
12889 (2)	1.6.97	1.6.87	99.00	10.55	9.89	1,430	0.75	10.35	9.7030
12892 (2)	1.7.97	1.7.87	99.00	10.66	9.99	3.000	0.75	10.80	10.1250
12894 (3)	20.7.92	20.7.87	99.00	10.68	9.93	2,500	0.30	5.30	4.9685
12895 (2)	1.8.97	1.8.87	99.00	11.45	10.74	1.450	0.75	11.20	10.5000
12897 (3)	19.8.92	19.8.87	99.00	11.42	10.67	250	0.30	5.30	4.9685
12898 (2)	1.9.97	1.9.87	99.00	12.33	10.80	2,500	0.75	12.00	10.5000
13001 (2)	1.10.94	1.10.87	99.00	12.36	10.82	900	0.75	12.00	10.5000
13005 (3)	2.11.92	2.11.87	99.75	12.84	11.20	1,950	0.30	6.20	5.4250
13007 (3)	1.12.92	1.12.87	99.75	12.84	11.19	1.000	0.30	6.20	5.4250
13009 (3)	1.1.93	1.1.88	99.50	12.13	10.58	7,000	0.30	6.00	5.2500
13011 (3)	1.2.93	1.2.88	99.25	11.49	10.02	3,100	0.30	5.80	5.0750

ABI number	Treasury bonds							
	Maturity	Date of issue	Price at issue	Yield at issue		Amount taken up (lire bn.)	Coupon	
				gross	net		gross	net
12611	1.1.92	1.1.87	98.75	9.80	9.17	1,940	4.625	4.3359
12612	1.2.90	1.2.87	98.75	9.98	9.34	2,050	4.625	4.3359
12613	1.2.92	1.2.87	98.75	9.79	9.17	950	4.625	4.3359
12614	1.3.90	1.3.87	98.75	9.87	9.24	1,000	4.575	4.2891
12615	1.3.92	1.3.87	98.75	9.68	9.07	1,000	4.575	4.2891
12616	1.4.90	1.4.87	98.75	9.85	9.22	2,200	4.575	4.2891
12617	1.4.92	1.4.87	98.75	9.68	9.07	800	4.575	4.2891
12618	1.5.90	1.5.87	98.75	9.88	9.25	950	4.575	4.2891
12619	1.5.92	1.5.87	98.75	9.69	9.07	1,000	4.575	4.2891
12620	1.6.90	1.6.87	98.75	9.86	9.23	405	4.575	4.2891
12621	1.6.92	1.6.87	98.75	9.68	9.07	85	4.575	4.2891
12622	1.7.90	1.7.87	99.75	10.85	10.16	1.150	5.25	4.9218
12623	1.7.92	1.7.87	99.75	10.83	10.13	300	5.25	4.9218
12624	1.8.90	1.8.87	99.00	11.21	10.49	900	5.25	4.9218
12625	1.9.90	1.9.87	99.00	11.96	10.44	800	5.625	4.9218
12626	1.10.90	1.10.87	99.50	12.03	10.49	700	5.75	5.0312
12627	1.2.92	1.2.88	99.00	11.62	10.13	1,250	5.50	4.8125

ABI number	Treasury certificates in ECUs								
	Maturity	Date of issue	Price at issue	Yield at issue		Amount taken up (ECU mill.) (4)	LIRA/ECU exchange rate at issue	Coupon	
				gross	net			gross	net
12881	25.3.94	25.3.87	100	7.74	7.26	800	1,477.72	7.75	7.2656
13000	21.9.91	21.9.87	100	8.73	7.64	700	1,498.87	8.75	7.6562

(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) 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
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
1987	10.66	8.43	4.57	289.14	161.33	113.45	113.26	207.26	132.34	163.44	186.59
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
4th " ..	11.60	8.85	4.90	297.15	167.11	111.07	114.70	212.90	135.71	168.35	178.06
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
Oct.....	11.58	8.90	4.59	292.88	165.85	110.93	113.66	209.09	136.49	165.84	184.59
Nov. ...	11.91	8.98	4.97	296.24	167.11	110.55	115.19	212.79	135.21	167.83	174.24
Dec. ...	11.30	8.67	5.15	302.32	168.36	111.73	115.26	216.81	135.42	171.37	175.32

(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.

Table a33

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
1982	100,737	31,604	69,133	—	20.9	—	13.4
1983	120,629	35,432	85,197	—	20.7	—	13.2
1984	144,033	52,325	91,708	—	20.4	—	17.1
1985	153,722	46,441	107,281	—	18.1	—	12.9
1986	151,964	45,650	106,314	—	15.1	—	11.4
1987	150,643	44,507	106,136	—	13.0	—	10.0
1985 — Nov.	19,475	5,544	13,931	4.7	17.9	3.0	10.5
Dec.	23,709	16,840	6,869	4.3	18.1	4.2	12.9
1986 — Jan.	−2,503	−2,871	368	3.4	16.5	3.2	11.2
Feb.	11,903	−850	12,753	3.0	16.7	2.4	11.0
Mar.	14,441	2,122	12,319	3.0	16.4	1.2	11.1
Apr.	20,451	6,725	13,726	4.9	16.9	2.6	11.4
May	10,873	1,420	9,453	4.9	16.7	3.5	11.1
June	−6,186	−1,859	−4,327	2.8	15.3	2.6	11.1
July	26,598	12,851	13,747	2.8	16.0	2.7	12.1
Aug.	3,948	−3,734	7,682	2.4	16.0	2.1	12.0
Sept.	16,005	1,948	14,057	4.6	15.8	3.3	12.2
Oct.	17,837	10,861	6,976	4.0	16.3	3.5	12.9
Nov.	20,871	6,324	14,547	4.8	16.1	4.0	13.0
Dec.	17,726	12,713	5,013	3.8	15.1	3.6	11.4
1987 (5) — Jan.	4,538	3,927	611	3.1	15.9	3.5	13.2
Feb.	12,455	1,786	10,669	2.7	15.7	3.5	13.9
Mar.	11,824	—869	12,693	3.2	15.2	2.8	13.1
Apr.	20,466	5,283	15,183	4.1	15.0	2.1	12.5
May	13,253	3,794	9,459	4.2	15.0	2.7	13.0
June	−2,070	2,132	−4,202	3.1	15.5	3.7	14.1
July	23,240	9,470	13,770	2.8	14.8	3.2	12.9
Aug.	4,515	−4,674	9,189	2.3	14.8	2.1	12.8
Sept.	8,361	−6,071	14.432	3.2	13.9	0.4	10.8
Oct.	15,398	8,008	7,390	2.8	13.5	0.7	9.8
Nov.	18,580	9,104	9,476	3.2	13.0	1.8	10.3
Dec.	20,083	12,617	7,466	3.0	13.0	2.8	10.0

(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, bank's 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.

Monetary aggregates and their counterparts

(changes in billions of lire)

	1984	1985	1986 Year	1986 Jan-Sept	1987 July	1987 Aug	1987 Sept	1987 Jan-Sept
A) BI-UIC								
ASSETS								
Foreign sector *(a1)*	5,195	–13,651	3,489	3,306	–1,909	–4,225	4,145	395
State sector *(a2)* (1)	13,529	27,482	10,891	3,318	4,756	3,586	565	13,270
Banks *(a3)*	–3,550	5,675	–3,360	–4,568	1,557	–979	–1,792	–2,231
Special credit institutions *(a4)*	433	–273	458	486	49	36	–20	53
Other *(a5)*	–2,129	–402	–910	–2,894	–905	–462	–3,623	–12,054
LIABILITIES								
Non-state sector *(a6)*	3,561	3,967	3,036	–1,126	2,719	–2,326	–236	–868
Banks *(a7)*	9,917	14,864	7,532	774	829	282	–489	301
B) Banks								
ASSETS								
BI-UIC *(b1=a7)*	9,917	14,864	7,532	774	829	282	–489	301
Foreign sector *(b2)*	–5,138	5,299	–6,454	–5,031	2,019	3,214	–2,973	–1,925
State sector *(b3)* (1)	4,778	11,624	7,575	–333	–3,285	–960	7,417	–4,663
Non-state sector *(b4)*	38,162	30,126	28,170	6,608	6,938	–4,820	–8,180	4,438
Special credit institutions *(b5)*	2,123	1,123	6	–3,534	–1,941	349	895	–1,293
Other *(b6)*	–9,535	–15,398	342	–9,546	–4,339	–35	5,827	–737
LIABILITIES								
Non-state sector:								
current accounts *(b7)*	26,205	22,296	29,808	–3,354	–303	–1,623	4,399	–6,105
savings deposits *(b8)*	14,064	13,777	1,474	–10,636	194	961	141	–5,954
repurchase agreements *(b9)*	132	3	199	2,009	386	138	–652	2,445
Bank CDs *(b10)*	4,276	5,753	8,129	5,007	–1,452	–549	410	7,688
BI-UIC *(b11=a3)*	–3,550	5,675	–3,360	–4,568	1,557	–979	–1,792	–2,231
State sector *(b12)*	–820	134	921	480	–161	82	–9	278

(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 recorder in the budget accounts.

Monetary aggregates and their counterparts

(changes in billions of lire)

	1984	1985	1986 Year	1986 Jan-Sept	1987 July	1987 August	1987 September	1987 Jan-Sept
C) State sector								
DOMESTIC BORROWING REQUIREMENT *(c1)*	93,425	114,848	109,307	82,097	13,881	9,358	14,694	83,813
LIABILITIES TOWARDS:								
Non-state sector								
PO savings:								
current accounts *(c2)*	657	2,221	−479	−1,002	611	212	264	−202
savings deposits *(c3)*	5,972	7,788	10,553	3,418	395	558	447	4,819
Treasury bills and other government securities *(c4)*	63,938	60,126	57,757	53,660	11,738	7,652	7,689	74,234
BI-UIC *(c5=a2)*	13,529	27,482	10,891	3,318	4,756	3,586	565	13,270
Banks *(c6=b3−b12)*	5,598	11,490	6,654	−814	−3,123	−1,042	7,425	−4,941
Other *(c7)*	3,731	5,741	23,931	23,517	−496	−1,608	−1,696	−3,367
D) Monetary aggregates and their counterparts *(consolidated account of liquidity-creating bodies)*								
MONETARY AGGREGATES								
M1 *(d1=a6+b7+c2)*	30,423	28,484	32,365	−5,481	3,026	−3,737	4,427	−7,174
Savings deposits *(d2=b8+c3)*	20,036	21,565	12,027	−7,218	590	1,520	589	−1,135
Repurchase agreements *(d3=b9)*	132	3	199	2,009	386	138	−652	2,445
M2A *(d4=d1+d2+d3)*	50,591	50,051	44,591	−10,690	4,002	−2,079	4,364	−5,864
Banks' CDs *(d5=b10)*	4,276	5,753	8,129	5,007	−1,452	−549	410	7,688
M2 *(d6=d4+d5)*	54,867	55,804	52,720	−5,683	2,550	−2,629	4,774	1,824
SOURCES								
Foreign sector *(d7=a1+b2)*	57	−8,352	−2,965	−1,725	110	−1,011	1,172	−1,530
State sector *(d8=c1−c4−c7)*	25,756	48,981	27,619	4,920	2,639	3,314	8,701	12,946
Non-state sector *(d9=b4)*	38,162	30,126	28,170	6,608	6,938	−4,820	−8,180	4,438
Special credit institutions *(d10=a4+b5)*	2,556	850	464	−3,048	−1,892	385	876	−1,240
Other *(d11=a5+b6)*	−11,664	−15,801	−568	−12,438	−5,244	−497	2,205	−12,790

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
1982 — Dec.	216,640	402,324	402,324	475,341	16.7	18.1	18.1	18.0
1983 — Dec.	244,629	448,498	451,755	540,084	12.9	11.5	12.3	13.6
1984 — Dec.	275,052	499,090	506,623	616,264	12.4	11.3	12.1	14.1
1985 — Nov.	273,477	504,331	517,567	649,336	13.4	12.1	13.2	13.2
Dec.	303,536	549,141	562,427	687,652	10.4	10.0	11.0	11.6
1986 — Jan.	292,155	538,587	553,197	684,549	9.5	9.3	10.0	11.0
Feb.	285,339	527,862	543,021	679,762	9.6	8.8	9.4	10.7
Mar.	288,297	529,123	543,677	684,194	9.9	8.5	9.0	10.8
Apr.	289,456	527,926	544,079	683,387	9.8	7.9	8.5	9.6
May.	288,671	525,254	542,022	681,906	11.1	8.2	8.8	9.1
June	291,526	527,848	544,973	682,590	10.1	7.6	8.2	8.1
July	294,071	531,662	548,916	686,672	8.8	6.9	7.6	7.3
Aug.	291,463	531,145	548,638	686,528	8.8	6.9	7.6	7.0
Sept.	298,055	538,451	556,744	693,512	9.5	7.3	8.2	7.0
Oct.	302,077	543,944	563,426	698,838	10.6	8.1	9.1	7.8
Nov.	304,475	548,355	568,636	702,517	11.3	8.7	9.9	8.2
Dec.	335,901	593,732	615,147	744,198	10.7	8.1	9.4	8.2
1987 (*) — Jan.	321,228	580,558	606,186	737,559	9.9	7.8	9.6	7.7
Feb.	314,238	571,470	599,339	731,943	10.1	8.3	10.4	7.7
Mar.	316,450	573,014	602,319	736,387	9.8	8.5	10.8	7.6
Apr.	319,698	576,813	606,917	741,833	10.4	9.3	11.5	8.6
May.	319,129	576,521	607,200	743,207	10.6	9.8	12.0	9.0
June.	325,012	581,582	612,276	747,012	11.5	10.2	12.4	9.4
July	328,038	585,584	614,826	755,361	11.6	10.1	12.0	10.0
Aug.	324,301	583,504	612,197	757,985	11.3	9.9	11.6	10.4
Sept.	328,728	587,868	616,971	771,070	10.3	9.2	10.8	11.2
Oct.	332,432	591,991	621,708	778,936	10.0	8.8	10.3	11.5
Nov.	331,136	591,434	622,315	786,495	8.8	7.9	9.4	12.0
Dec.	....	634,761	666,472	....	....	6.9	8.3	....

(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.

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
1982	90,345	11,351	13,461	4,412	11,592	4,551	2,230	3,756	59,079	−10,048	−10,039
1983	123,013	21,462	11,549	2,422	14,139	8,645	3,000	2,094	71,867	706	−12,871
1984	138,769	35,930	14,469	1,925	10,780	6,365	3,300	2,075	82,507	−7,254	−11,328
1985	147,318	33,338	11,409	1,694	11,837	7,719	4,192	5,271	97,339	−7,761	−17,720
1986	170,997	23,467	16,896	5,286	7,002	17,425	7,570	367	97,484	665	−5,165
1987	....	21,738	19,165	3,604	....	....	10,674	....	102,047		
1985 — Nov.	7,594	4,076	1,471	−2	470	−354	120	299	13,491	−693	−11,284
Dec.	49,062	13,279	3,906	−346	711	4,753	175	−575	6,069	−2,025	23,115
1986 — Jan.	6,193	−5,761	842	2,048	289	1,457	894	−59	313	−1,529	7,699
Feb.	8,449	−4,316	2,052	1,415	928	682	735	92	11,835	−1,219	−3,755
Mar.	13,405	−1,190	2,804	508	535	816	736	−472	11,659	−1,269	−722
Apr.	12,500	5,640	1,067	17	279	−597	326	1,919	12,700	−1,308	−7,543
May	10,620	243	1,353	−176	1,436	−683	91	1,812	8,782	533	−2,771
June	7,571	909	−1,937	−832	756	1,958	960	84	−7,488	531	12,630
July	11,792	10,605	856	1,391	309	1,711	723	−502	13,184	1,709	−18,194
Aug.	7,104	−4,351	614	3	663	2,694	632	−1,133	7,258	2,714	−1,990
Sept.	16,128	955	1,401	−409	211	2,680	859	−1,192	13,868	803	−3,048
Oct.	18,130	8,495	2,442	−75	568	3,847	453	−492	6,465	2,864	−6,437
Nov.	11,490	3,846	1,802	677	611	1,225	496	508	13,953	−404	−11,224
Dec.	47,617	8,392	3,601	721	416	1,633	666	−198	4,956	−2,760	30,190
1987 — Jan.	4,587	3,891	58	−22	555	1,132	968	−247	−102	612	−2,258
Feb.	8,281	−183	1,648	322	616	−790	1,097	1,332	10,626	−768	−5,619
Mar.	13,134	−3,824	2,134	822	1,014	688	1,011	2,598	11,841	−726	−2,424
Apr.	14,323	4,015	1,152	116	669	270	538	1,165	14,648	357	−8,607
May	6,663	2,879	1,036	−121	541	71	600	−538	9,115	−1,511	−5,409
June	11,138	1,805	167	159	482	2,926	1,248	−1,465	−4,736	273	10,279
July	19,411	6,345	2,518	607	1,391	2,083	932	−575	12,425	645	−6,960
Aug.	7,354	−5,030	376	−20	557	1,177	820	−1,013	8,830	1,020	637
Sept.	12,660	−8,495	2,029	394	727	645	886	1,259	13,474	21	1,720
Oct.	....	4,946	2,601	461	947	....	916	....	7,762	....	....
Nov.	....	5,860	2,341	903	495	....	825	....	11,265	....	....
Dec.	....	9,529	3,104	−17	....	....	833	....	6,900	....	....

(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 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

Exchange provisions

The exchange restrictions introduced with the Decree of 13 September 1987 were lifted before their original expiry date of 31 March 1988.

Tax measures

The Law of 29 October 1987 finalized the financial regulation of local authorities for 1987 and introduced new measures covering 1988.

The Decree Law of 29 December 1987 laid down a number of tax, social security and other regulations that were later incorporated in the Finance Bill. The preliminary payments of IRPEG and ILOR by corporate bodies were increased for the years 1988-1990. So was the flat-rate withholding tax on interest, premiums and other income from bank deposits and bank and postal current accounts maturing after 1st January 1988. Some indirect tax rates were increased, while some deductions concerning the personal income tax were made more generous. The special tax on stock exchange contracts covering government securities and drawn up between operators admitted to Treasury bill auctions was reduced; repurchase agreement contracts were given the same fiscal treatment as riporti *contracts. As of 1st January 1988 family allowances were replaced by a "family unit" allowance which varies according to the number of members of the family unit and their income.*

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 banks' 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 market 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 workers, 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 plus cost-of-living allowance less 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 unemployment to the labour force.*

Unemployment rate adjusted for Wage Supplementation

— *ratio of unemployment 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 cover long-term layoffs (normally limited to two years).*

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

MANAGEMENT OF THE BANK OF ITALY

as at 29 February 1988

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