BANCA D'ITALIA

Economic Bulletin

Number 8 February 1989

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Economic Bulletin

prepared by the
Research Department

Number 8 February 1989

Registration with the Court of Rome No. 426, 19 September 1985 - *Director:* Dr. CARLO SANTINI

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In 1988 economic activity in the industrial countries expanded much more rapidly than forecast, almost equaling the averages recorded during the buoyant but brief cyclical upswing of 1976-78. Capital formation was particularly strong and employment grew. Gains in productivity were such that increases in wages and profits did not lead to serious tension in the labour or goods markets. Inflation remained on average below 4 per cent, although it accelerated in the second half of the year. In these circumstances, the stance of monetary policies tended to be restrictive, aimed at containing the pressure on prices.

For the year as a whole the growth of output came to 4 per cent, dropping off in the second half to an annual rate of 3.3 per cent. In comparison with earlier years, the expansion was more evenly distributed among the different economies. The growth rate for the EEC area was 3.5 per cent, almost one percentage point above that for 1987. Output rose by 3.8 per cent in the United States and by 5.8 per cent in Japan.

For the industrial countries as a group, the expansion was attributable entirely to the strength of domestic demand. Consumption increased by 3 per cent, as in 1987, thanks to a similar rise in disposable income. The greatest stimulus to growth, however, came from private investment, which expanded by 11 per cent. This increase reflected expectations of sustained demand as well as improved corporate balance sheets and profitability, in conjunction with a high and increasing rate of capacity utilization. After remaining virtually unchanged between 1985 and 1987, the gap between actual and potential output for the leading industrial countries narrowed by about 1 percentage point in 1988, thus increasing the pressure on productive capacity. However, there continued to be a margin — albeit a modest one — by comparison with 1979, a year taken to be representative of full capacity utilization.

The recovery in private capital formation is also ascribable to the influence of structural reforms undertaken in the second half of the eighties or still being carried out. Among these are: deregulation in some service industries and a consequent increase in competition, the privatization of public enterprises, the revision of taxation methods, and the programme envisaged for completing the single European market. The faster growth of investment may thus turn out to represent a more long-lasting trend resulting from better conditions of supply and profitability in the medium term, thereby loosening the constraint of productive capacity.

In the United States net exports provided a significant impulse of almost 1 percentage point to growth (Table 1). Production and investment in manufacturing rose rapidly, stimulated by demand in the sectors more oriented to foreign markets. Notwithstanding a modest recovery in households' propensity to save as compared with the trough of 1987 (3.3 per cent), consumption rose by almost 3 per cent, largely because of increased employment. Activity slackened during the second half of the year, with the growth in GDP falling to 2.5 per cent on an annual basis, mostly as the result of a fall in net exports. In

Japan there was a sharp increase in consumption and in fixed capital formation, particularly in industry. Last year saw a continuation of the transition from external to domestic demand as the main engine of economic activity, thanks partly to the stimulus provided by budget policy; this shift, which has been under way since 1986, was especially marked in the first half of the year.

Table 1

Gross product, domestic demand and net exports in the leading industrial countries
(constant prices; % changes on previous year)

	1987	1988	1988 H1	1988 H2
United States				
GNP	3.4	3.8	4.0	2.5
Domestic demand	3.1	3.0	2.5	2.0
Net exports (1)	0.2	0.8	1.4	0.5
Japan				
GNP	4.2	5.8	6.1	4.5
Domestic demand	5.0	7.5	8.3	5.3
Net exports (1)	−0.8	−1.8	−2.3	−1.0
Germany				
GNP	1.8	3.4	3.7	2.8
Domestic demand	2.9	3.8	4.6	2.0
Net exports (1)	−1.2	−0.4	−1.0	0.8
France				
GDP	2.3	3.5	3.5	3.8
Domestic demand	3.5	3.8	3.7	4.0
Net exports (1)	−1.1	−0.3	−0.3	−0.5
Italy				
GDP	3.1	3.8	....	....
Domestic demand	4.7	4.1	....	....
Net exports (1)	−1.6	−0.5	....	....
United Kingdom				
GDP	4.2	4.3	3.1	5.0
Domestic demand	4.9	7.0	5.6	7.0
Net exports (1)	−0.6	−2.8	−2.6	−1.8
Canada				
GNP	4.0	4.3	4.2	2.8
Domestic demand	4.5	5.3	4.3	4.0
Net exports (1)	−0.6	−0.8	−0.1	−1.3

Source: OECD and national bulletins; for Italy: Isco.
(1) Changes as a percentage of previous year's GNP/GDP.

Within the European Community, growth rates were over 4 per cent in the United Kingdom, between 3.5 and 4 per cent in France and Italy, and somewhat lower in Germany. Domestic demand showed a marked increase everywhere, while the contribution of external demand was negative. Fixed capital formation expanded by 7 per cent in the EEC economies; investment in plant and equipment rose by almost 9 per cent, with the results for Spain, Portugal, the United Kingdom and Italy being above the overall average.

The expansion of activity was associated partly with gains in labour productivity and partly with increased employment, which rose by 1.8 per cent in the industrial countries as a whole (by more than 2 per cent in the United States and by over 1 per cent in the EEC). This latter result is in line with the trend increase in the demand for labour under way since 1985, connected in part with reductions in relative labour costs and with the spread of more flexible conditions of employment. The rise in the supply of labour resulting from increased participation rates nonetheless checked the fall of unemployment in the European Community, where the rate declined from 11 per cent in 1987 to 10.5 per cent. In the United States and Canada there was a much more marked reduction, in the former from 6.2 to 5.5 per cent and in the latter from 8.9 to 7.8 per cent.

Despite the strength of demand and the recovery of prices for non-energy primary products, inflation accelerated only to a limited extent on average for 1988, partly because of the modest increases in the cost of domestic inputs and partly because of the fall in oil prices. For the industrial countries as a whole, inflation as measured by the index of consumer prices was about 3.5 per cent, compared with 3.2 per cent in 1987. Among the leading countries, it declined in relation to the previous year only in France and Canada.

Gains in productivity have kept the increase in unit labour costs for the whole of the economy below that in consumer prices. In the manufacturing sector, unit costs started to fall around the middle of 1987 and continued to do so until the first half of last year. The reverse was true in the United States and the United

Kingdom, where labour markets conditions were tighter as a result of the fall in unemployment, already leading to considerable increases in wages and salaries during 1988.

Commodity prices came under pressure owing to the low level of stocks and the rapid expansion in the demand for non-energy raw materials, induced by the growth of production in the industrial countries. Overall, commodity prices rose in dollar terms by more than 20 per cent on average for the year, with a pronounced acceleration in the last quarter following a pause during the summer. The increase was greatest in metals (almost 50 per cent) and foodstuffs (28 per cent), while agricultural raw materials rose by less than 10 per cent.

In the oil market, by contrast, there was a considerable excess of supply, largely because the volume of output in the OPEC countries was above the agreed quotas; this led to a strong decline in spot prices from the summer onwards. During the last months of the year prices climbed rapidly back to the December 1987 levels (18-19 dollars per barrel), bringing them near to the reference price of 18 dollars confirmed by OPEC in its November agreement, which non-OPEC countries recently agreed to support. Despite this development, the average dollar cost of imported crude oil for the industrial countries for 1988 as a whole was approximately 15 per cent less than in 1987.

Inflation accelerated in the second half of the year. By December the 12-month rate of increase in consumer prices had accelerated to 6.8 per cent in the United Kingdom, against a rate of little more than 3 per cent the previous January. In Italy it reached 5.4 per cent (5.2 per cent in January). In Japan and Germany it came to 1 and 1.6 per cent respectively, compared with rates of less than 1 per cent at the start of the year. In France and the United States inflation worked out at 3 and just over 4 per cent respectively. The acceleration continued into January 1989; in Germany the 12-month rate of increase in prices was 2.5 per cent, in the United Kingdom the figure was 7.5 per cent and in Italy 5.7 per cent (Figure 1 and Table a3).

In the industrial countries as a group, the general government deficit declined in relation to 1987, largely owing to the cyclical effects of strong economic expansion. If the variations in budget balances are adjusted for the cyclical component, the fiscal impact on the economy was virtually neutral. Only in the United Kingdom, Canada and, to a lesser extent, France was the budgetary stance restrictive.

Figure 1

Consumer prices, production prices and unit labour costs in the leading industrial countries (1)

(percentage changes on corresponding period of previous year)

Source: OECD and national bulletins.
(1) Production prices and labour costs in manufacturing.

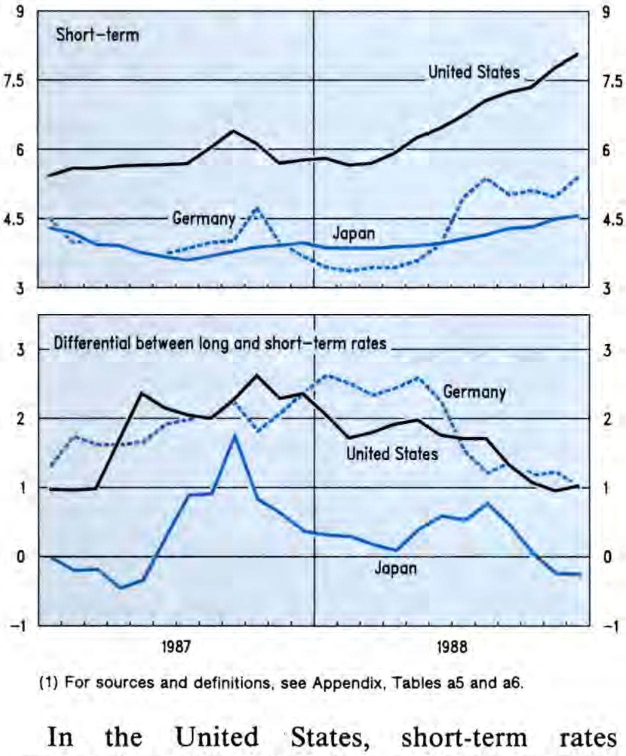
The stance of fiscal policies in the three leading countries was only partly consistent with the need for a redistribution of the domestic demand expansion in favour of economies with large current account surpluses. In the United States, the Federal government deficit fell to less than 3 per cent of GNP, compared with 3.3 per cent in 1987, though remaining virtually unchanged by comparison with 1987 (155 billion dollars) and 10 billion dollars over the limit prescribed by the Gramm-Rudman-Hollings Act. In Japan the strong cyclical increase in revenue was offset by the reduction of personal income tax, equal to 0.4 per cent of GNP, and by large-scale public sector investment programmes. The country's planned tax reform was recently approved, after a difficult passage through Parliament. In Germany the widening of the deficit from 1.7 to 2 per cent of GNP, although less than expected owing to the favourable course of economic activity, was due primarily to higher transfers to the EEC and a fall in Deutsche Bundesbank profits resulting from capital losses on foreign currency reserves during 1987, but also partly to the tax cuts introduced as part of the long-term programme of tax reform.

Monetary policies continued to be expansionary during the early months of 1988, as they had been towards the close of 1987, when the acute instability prevailing on the financial markets had counseled faster growth of the aggregates and reductions in interest rates. As a result of the strong build-up in aggregate demand and more intense price pressures, monetary conditions were again tightened from May onwards by means of a generalized increase in short-term interest rates. The move to greater restraint, necessitated by the importance attaching to the internal targets of monetary stability and demand control, helped to damp down inflationary expectations, given the less turbulent conditions on the exchange markets.

Figure 2

Short-term interest rates and differential between long and short-term rates (1)

(monthly averages)



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

In the United States, short-term rates continued to climb after the rise in the discount rate from 6 to 6.5 per cent in August; by the end of the year they were more than two percentage points higher than in January (Figure 2). In Japan, where neither the exchange rate nor prices came under significant pressure, the rise in interest rates was kept within narrow bounds, less than one percentage point above the January levels.

German short-term yields fell back from their August highs, but rose again towards the end of the year following the rise in Lombard rate to 5.5 per cent and in the reference rate for repurchase agreements. These increases were made in December with a view to bringing the aggregates back within the target range and to checking the pressures on prices caused by the decline of the exchange rate. Such increases were followed by similar changes in the official rates in Belgium, the Netherlands, Switzerland and France, as a result of which short-term yields rose still more. On 19 January 1989 the monetary authorities of Germany and other European countries decided on a further half percentage point rise in official rates, a manoeuvre that was combined with interventions in the exchange markets aimed at restraining the appreciation of the dollar.

In the United Kingdom the second half of 1988 saw the reappearance of a sharp conflict between the external objective of preventing further exchange rate appreciation and the domestic monetary conditions which called for higher interest rates. At the end of November the authorities decided on a further one-point increase in base lending rates to 13 per cent, after a similar rise had been put into effect in August.

In the long-term sector interest rates either fell or stayed near the peaks reached between August and September; only in the United States did they climb back in December to levels significantly above those prevailing just prior to the stock market crisis of October 1987. The differential between yields on assets at long and short term narrowed progressively, declining in the leading economies to less than one percentage point by the end of 1988, with the spread disappearing completely in Japan and, at the start of 1989, in the United States.

This notable flattening of the yield curve suggests that monetary restraint had led promptly to a lowering of investors' inflationary expectations. Up to now, however, budget policies have failed to provide sufficient support to control aggregate demand in ways consistent with the goal of redressing the leading countries' external disequilibria.

Table 2

Gross lending in international capital markets

(billions of dollars)

	1987	1988	1987		1988	
			H1	H2	H1	H2
Gross bond issues (1)	180.8	227.4	102.2	78.6	121.2	106.2
of which: floating rate	*13.0*	*21.9*	*4.5*	*8.5*	*8.2*	*13.7*
Syndicated loans (2)	91.7	127.1	40.7	51.0	68.9	58.2
Back-up facilities (3)	31.2	15.5	11.8	19.4	10.2	5.3
Total gross lending	**303.7**	**370.0**	**154.7**	**149.0**	**200.3**	**169.7**
	percentage breakdown by borrowers					
OECD countries	86.4	88.9	85.5	87.3	91.2	86.7
of which: United States	*14.9*	*12.1*	*15.2*	*14.6*	*15.4*	*8.9*
Italy	*4.4*	*3.4*	*2.7*	*6.2*	*2.4*	*4.5*
OPEC countries	0.9	0.8	0.9	0.9	0.6	1.1
Other developing countries	7.5	5.4	9.0	6.0	4.8	6.0
Eastern Europe	1.2	1.3	1.2	1.2	0.6	2.0
Other	4.0	3.7	3.4	4.6	3.0	4.5

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.

Activity in the international financial markets expanded at a brisk pace, especially during the first half of the year. Gross financing rose overall to 370 billion dollars, an increase of 22 per cent over 1987. In their recovery from the depressed levels reached after the stock market crisis of late 1987, the markets derived stimulus from the industrial economies' strong growth and from the trend towards the international diversification of portfolios. Among the borrowing countries, those of the OECD further strengthened their relative position, accounting for almost 90 per cent of overall financing; non-oil LDCs were able to raise only 5 per cent (Table 2).

The bond sector was particularly lively, with an increase of 26 per cent in overall gross issues. As expectations of further rises in interest rates became more widespread in the second half of the year, issue activity in floating rate securities showed some recovery, though it remained distinctly below the levels of the early eighties. Bond issues tended to be larger than in previous years and for borrowers of higher standing, and therefore to entail greater liquidity. With regard to currency distribution, there were increases in the share of the dollar in connection with its appreciation around mid-year and in that of the ECU.

Syndicated loans increased even more sharply, rising by 39 per cent. This expansion was fueled by corporate mergers and acquisitions, most of which were financed through banking channels.

The balance of payments and exchange rates

The payments imbalances among the leading countries were reduced, but this process slowed down in the second half of the year. Movements in the real exchange rates of the dollar and other major currencies and in the relative strength of

Table 3

Trade and current account balances

(billions of dollars on an annual basis, seasonally adjusted)

	Current account balances				Trade balances							
					Total				*of which:* with United States (1)			
	1987	1988	1988 I	1988 II	1987	1988	1988 I	1988 II	1987	1988	1988 I	1988 II
Industrial countries	−49.1	−61.0	−59.7	−61.0	−26.8	−6.0	−5.1	−1.0	100.0	71.1	78.0	59.6
of which: United States ...	−154.0	−132.0	−147.0	−124.0	−160.3	−119.5	−139.9	−102.0	—	—	—	—
Japan	87.0	79.5	80.0	78.0	96.4	87.6	93.0	82.2	59.8	55.4	51.9	59.0
EEC	37.4	14.0	21.1	7.0	32.0	15.0	9.6	6.0	24.3	8.8	12.1	4.8
of which: Germany	44.9	48.4	49.6	42.0	70.3	75.0	75.8	74.0	16.3	11.8	12.8	10.7
France	−5.3	−6.0	−2.8	−8.0	−9.5	−9.0	−8.8	−8.0	3.2	2.1	2.8	1.2
Italy	−1.0	−4.2	−2.4	−6.0	0.1	−0.4	−0.4	−0.4	6.2	4.8	5.2	4.4
United Kingdom	−4.1	−26.4	−20.4	−30.7	−16.7	−36.0	−30.3	−41.6	3.4	−0.5	0.1	−1.0

Source: OECD and national bulletins. The figures for 1988 are partly estimated.
(1) Not seasonally adjusted.

domestic demand in the different economies, were only partially consistent with the need for a more rapid return to external equilibrium. In the EEC the gap between the growing German surplus and the deficits of the other countries widened.

In the course of 1988 the growth in world trade speeded up appreciably, propelled by the rapid expansion of economic activity in the industrial countries. For the year as a whole the increase in volume is estimated to have reached 9 per cent, against 5.7 per cent in 1987. Trade in manufactures grew even more quickly (10 per cent against 6.5 per cent in 1987). The acceleration was attributable to the industrial countries and members of OPEC, whose exports expanded by 9.5 and 8.5 per cent respectively, as compared with 5.8 and 2 per cent in 1987. The figure for non-oil LDCs is not expected to differ much from the high rate of 10 per cent recorded in 1987.

The industrial countries' aggregate balance on current account recorded a deficit of approximately 60 billion dollars. The progress made in the first half of 1988 towards reducing the imbalances between the leading countries appears to have lost momentum more recently. The process of reducing the US deficit is continuing, albeit slowly, but in Japan and Germany the adjustment has come to a standstill. At the same time, the United Kingdom's external position has deteriorated, as have those of some other EEC economies, though to a lesser extent.

The US trade deficit amounted to 120 billion dollars, representing a reduction of 40 billion in relation to 1987. Almost one third of this change came from trade with EEC countries and another third from trade with Japan and the newly industrializing economies of Asia (the NIEs, i.e. South Korea, Hong Kong, Singapore and Taiwan). The improvement mainly reflects increases in exports, which rose in value terms by 27 per cent compared to the previous year, while imports went up by 8 per cent. In volume terms, exports are estimated to have increased last year by about 20 per cent. The current account deficit declined to 132 billion dollars from 154 billion in

1987. Here the improvement failed to match that of the trade balance, since investment income shifted into deficit for the first time in view of the country's growing external debtor position.

The Japanese trade and current account surpluses declined slightly by comparison with 1987 (from 96 to around 88 billion dollars and from 87 to approximately 80 billion respectively).

In Germany the volume of imports grew slightly faster than that of exports (6 and 5 per cent respectively), but the movement of the terms of trade weighed against a reduction in the surplus, with the result that the trade surplus rose from 70 billion dollars in 1987 to 75 billion and the current account surplus also increased. There was a slight reduction in Germany's surplus vis-à-vis non-EEC countries, especially the United States, but that in relation to the other Community economies continued to rise. In particular, there were increases in the bilateral balances with countries where the growth of domestic demand was fastest (the United Kingdom, Italy, Spain and Portugal). The German surplus towards the other EEC countries, which has shown a rising trend since 1985, exerts pressure on the terms for financing external imbalances and also tends to shift the burden of absorbing the US deficit onto other European countries.

The difficulties encountered by Japan and Germany in reducing their surpluses appear to be associated with both competitiveness and relative demand factors. In neither country has the real exchange rate risen appreciably above the levels of the second half of 1986. Domestic demand in both countries slackened during 1988 and in Germany the pace of growth in the second half was below the average for the other industrial countries.

In the United Kingdom the strong cyclical expansion and the deterioration in its competitive position led to a worrying increase in the deficits on trade and current account, which rose last year from 17 to 36 billion dollars and from 4 to 26 billion respectively.

Between the beginning and the end of 1988 the effective exchange rate of the dollar showed no change in nominal terms and appreciated by over 3 per cent in real terms. However, the competitiveness of US manufactures is about 10 per cent better than the average levels for 1980, when the current account was in balance. From end-September to end-November signs of a slowdown in US economic growth and the unexpected deterioration of the trade balance led to a fall of 1.7 per cent in the nominal effective exchange rate of the dollar. From the second half of November onwards the dollar's decline was halted by large-scale intervention by the central banks, except that of Japan. With short-term interest rates rising in the United States, the dollar started to strengthen and continued to do so up to January of this year. From end-November to end-January the effective exchange rate of the dollar rose by almost 6 per cent; on a bilateral basis it appreciated by 6 per cent against the yen and by 7 per cent against the Deutschemark. Any continuation of the dollar's recent appreciation would, on the one hand, limit the importation of inflation into the United States, but on the other it would further delay the reduction of the external deficit.

The last part of 1988 witnessed a general weakening of the Deutschemark as a result of a huge outflow of short-term capital, prompted by the widening spread of interest rates vis-à-vis the dollar and the pound sterling and probably also by the approaching introduction in Germany of a withholding tax on domestic bond yields. From end-November to end-January the Deutschemark lost 1.2 per cent against the yen, 1.7 per cent against the pound sterling and 0.3 and 1 per cent respectively against the French franc and the lira (Figure 3).

Figure 3

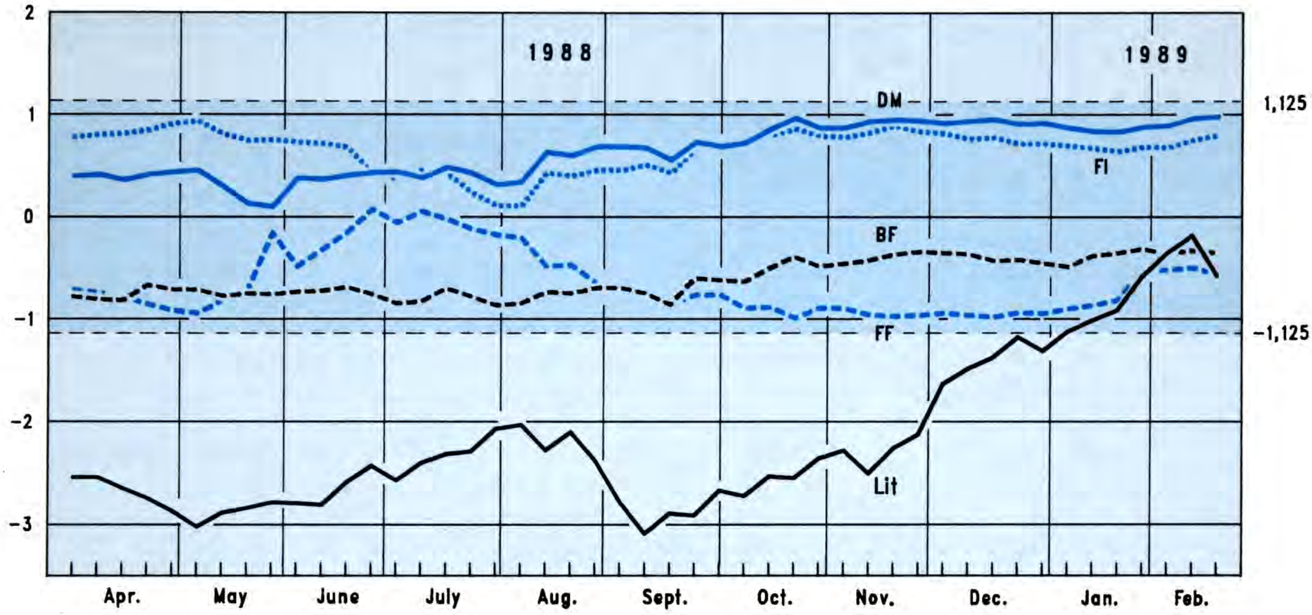
Bilateral exchange rates of the Deutschemark

(weekly averages, index: 1st week of August = 100)

Figure 4

Divergence of market rates from EMS central parities

(percentages)



The stability that has prevailed in the EMS in the last four months has been reinforced by agents' perception of a closer coordination of Community monetary policies. Interest rate differentials with the Deutschemark have remained virtually unchanged and the currencies have generally kept within the narrow fluctuation band. Until December the Deutschemark was close to the upper limit of the narrow band, with the French franc near the lower one. A persisting favourable interest-rate differential enabled the lira to strengthen its position and after the turn of the year it rose above the lower margin of the narrow band; by mid-February 1989 it had appreciated by 1.8 per cent against the Deutschemark since the start of October. The French franc also gained ground in January, moving towards the centre of the narrow band (Figure 4).

Economic trends in the LDCs and foreign debt

The aggregate rate of growth for the LDCs in 1988 is expected to be the same as for the previous year (around 3.5 per cent), though trends still vary widely from one group of LDCs to another. The growth rate for Asian LDCs was around 7 per cent, and was higher still in the NIEs, thanks to the brisk rise in their exports of manufactures. Growth slowed down sharply in the more heavily indebted economies, however, from 2.5 per cent in 1987 to 1.5 per cent. This represents an exacerbation of previous declines in per capita income and investment and may prejudice the sustainability of adjustment programmes and prospects for development in the medium term. The low-income economies of sub-Saharan Africa recorded a slight improvement over 1987 and stabilized their per capita incomes (Table 4).

Many LDCs encountered difficulties in pursuing and maintaining more balanced domestic monetary and financial conditions last year. It is estimated that the most indebted nations reduced their public deficits as a percentage of GDP, but inflation gathered momentum. Within this group a distinction should nonetheless be made between countries such as Argentina and Brazil, where inflation

Table 4

Economic and financial indicators of LDCs

	Gross domestic product (percentage change)		Current account balance (billions of dollars)		Debt indicators (1) (as percentage of exports)			
					Service		Stock (2)	
	1987	1988 (3)	1987	1988 (3)	1987	1988 (3)	1987	1988 (3)
LDCs	3.4	3.6	—	−17.6	22.6	21.5	180.7	170.0
of which:								
Asian LDCs	6.8	7.3	20.9	16.1	....	....	....	....
Heavily-indebted LDCs	2.5	1.5	−8.7	−10.1	30.6	35.5	309.9	295.0
Sub-Saharan LDCs	3.8	4.2	−4.2	−4.1	18.4	20.5	307.6	315.0

Source: IMF and World Bank.
(1) Excluding short-term debt and past settlements. — (2) Gross stocks at end of period. — (3) Provisional.

soared and serious fiscal imbalances continue, and others such as Chile and Mexico, where both inflation and public sector deficits fell. Brazil recently announced a new stabilization programme, which includes restrictive monetary and fiscal measures and a temporary price freeze.

Considered as an aggregate, the current-account balance of the LDCs is estimated to have deteriorated, principally owing to the enlarged deficit of the energy-exporting countries. The surplus of the Asian countries is expected to fall, reflecting the reduction of about 10 billion dollars in the surplus of the NIEs. The latter decline is explained by the rise in the exchange rates of these countries and by measures to liberalize imports, which are rising strongly, particularly from the United States. The current account deficit of the most heavily indebted countries is expected to remain close to the 1987 levels, since the growing trade surplus will be absorbed by debt servicing.

According to provisional estimates by the World Bank, the foreign debt indicators also show differentiated developments among the main categories of LDCs. For the group as a whole the ratios of both debt service and debt stock to exports declined, confirming the tendency of the previous year; the improvement was confined to those countries which traditionally export manufactures, while for the sub-Saharan countries both indicators deteriorated. Debt service ratios for the most heavily indebted nations rose from 30.6 per cent of exports to over 35, while the proportion of outstanding debt to exports fell from 310 to 295 per cent. This result reflects in part the voluntary debt reduction arrangements agreed with the banks and, in some countries such as Brazil and Argentina, a strong expansion in exports.

The debtor nations continued to have difficulty raising the foreign capital needed to push ahead with the restructuring of their economies. For the fifteen most heavily indebted countries singled out in the Baker Plan, the net transfer of resources abroad, as measured by the overall balance in goods and services net of investment income, is expected to have risen further during 1988, reaching 3.5 per cent of GDP. Net transfers in favour of the sub-Saharan countries, on the other hand, are estimated to have increased, mostly as a result of larger net outlays by multilateral institutions.

Transactions on the secondary market in outstanding loans to debtor countries continued to expand rapidly in the second half of 1988. There was a significant increase in operations involving voluntary debt reduction. The volume of debt-equity swaps carried out in the first half of the year amounted to around 9 billion dollars, almost double the amount for the whole of 1987. These transactions are still concentrated in a few countries, mainly Mexico, the Philippines, Chile and Brazil, although the latter country recently announced the suspension of such operations. There was also a rise in the volume of interbank trading in debt, which enables the banks to improve the composition of their portfolios but entails no reduction in servicing costs for the debtor. Quotations for loans are still very low, even for the loans of countries which have made substantial progress in reducing their debts. In September 1988 the price for loans of all the countries quoted, with the exception of Bolivia, was below the level for June 1986.

The Italian economy and the balance of payments

The overall results for 1988

Real gross product increased by around 4 per cent in 1988, the fastest rate of growth this decade, owing mainly to the vigorous expansion in world demand and the strengthening of domestic capital formation, which was particularly high in the first half of the year. The resulting increase in economic activity offset the negative effect of higher taxation on disposable income, and thus had a positive impact on domestic demand, especially private consumption. The expansion in demand, combined with the rise in the cost of imported raw materials, nevertheless put pressure on costs and final prices, bringing to an end the seven-year downward trend in inflation. The faster growth in world trade was mirrored by a significant acceleration in the rate of increase of exports at constant prices. Import growth slowed down, although it was still faster than the increase in exports. Since the terms of trade improved slightly, there was a small worsening of 2 trillion lire in the trade deficit on a customs basis.

Capital formation increased even more rapidly than in 1987. Available data indicate that there was a revival in investment in industrial and agricultural machinery as well as continued growth in investment with a higher technology content. These developments, together with the recovery in investment in construction, lend credence to the supposition that companies are attaching more importance to expanding productive capacity than to technological modernization, in contrast to what happened in the first half of the eighties.

The public sector's contribution to the increase in aggregate demand in 1988 was negligible. The expansionary effect of the growth in the overall budget deficit in real terms (1 per cent, net of financial transactions) was offset by the increase in the loss of purchasing power on the stock of public debt and the relative shift in the burden of taxation away from firms and onto households, whose spending decisions are more influenced by cash flow considerations. However, this outcome cannot be considered a satisfactory one; the economic situation in 1988 was highly favourable for the adoption of measures aimed at reducing the imbalance in the public finances and significantly curbing the growth in public debt. The cost of a restrictive fiscal policy would have been easier to bear in a year of strong growth in demand for exports and capital goods. By making it possible to cut interest rates, the reduction in the public sector borrowing requirement would also have had a positive effect on investment decisions and thus on the prospects for economic growth.

Total employment benefited from the growth in the economy, rising by an average of 1.3 per cent for the four labour force surveys. This was the best result since the peak of the last cycle in 1980, when employment grew by 1.4 per cent. The fact that employment in industry rose by 73,000 after having contracted for eight consecutive years was particularly significant.

In view of the growth in the labour force, the increase in employment was not sufficient to reduce the unemployment rate, although it prevented it from rising above the level recorded in 1987 (12 per cent). However, the different regional trends in employment and population growth accentuated the dichotomy between the principal geographic areas of the country.

The improvement in employment in the North and the pronounced geographical segmentation of the labour market caused wage drift at company level, which had an impact on industry's per capita labour costs. Productivity gains in manufacturing were above 3 per cent, but this was modest by comparison with the exceptional increases of 6 per cent recorded in 1987, so that the rise in unit labour costs accelerated from 1.7 per cent to about 5 per cent. With the prices of imported inputs also rising more quickly, variable unit costs increased by more than 5 per cent, compared with a rise of 1.8 per cent in 1987. Since output prices usually respond only gradually to cost pressures, profit margins declined by about one percentage point from the high levels reached in recent years. This occurred despite strong pressures from the demand side, as indicated by the net reduction in stocks of finished goods, especially in the second half of the year, and high rates of capacity utilization.

The annual average inflation rate, as measured by the cost-of-living index, was 5 per cent, slightly higher than the figure for 1987. The increases in indirect taxes, though not explaining the acceleration in consumer prices in the course of the year, were responsible for around 0.3 percentage points of the rise. There was a more pronounced acceleration in wholesale prices, which increased by 4.7 per cent compared with 2.7 per cent in 1987. Nevertheless, the simultaneous rise in the average rate of inflation for the EEC countries led to a further narrowing of the inflation differential between Italy and the rest of the Community in the course of the year.

Domestic demand and industrial output

The acceleration in fixed capital formation observed towards the end of 1987 continued in the first half of last year. Data on domestic production and foreign trade indicate that investment in machinery and transport equipment was around 15 per cent higher in the first half of 1988 than in the corresponding period of 1987. The growth in the second half was probably equally rapid, according to the Isco-Mondo Economico indicators. Not only did expenditure on computers remain very high, but there was also an acceleration in investment in industrial and agricultural machinery, the trend growth of which had been modest over the four preceding years.

Quarterly Istat data indicate that in the first three quarters of 1988 investment in construction and public works was more than 3 per cent higher than in the same period of 1987, thus breaking the broadly downward trend of the last three years. On the basis of the Istat index of building permits and taking account of lags in commencing and completing projects, it would appear that investment in residential property grew steadily from the second quarter onwards. Even if it is assumed that other components remain unchanged, total housing investment could return to around the 1986 level on an annual average basis.

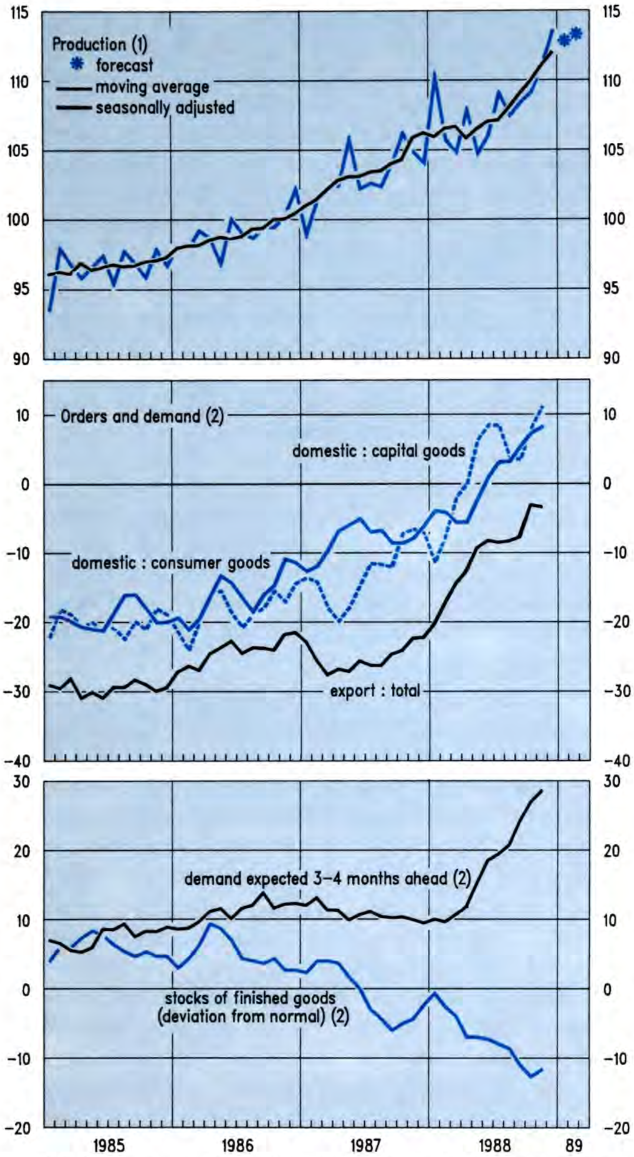
After slowing down in the final quarter of 1987, the demand for consumer goods showed a sudden and partly unexpected increase in the first and second quarters and stagnated in the third. Available data on orders and businessmen's expectations suggest that the rise in consumption resumed in the final quarter. Taking the second half as a whole, however, consumer demand probably slowed down slightly. The same pattern is evident in expenditure on durable goods, which, to judge from the trend in sales of motor vehicles, probably increased sharply, especially in the first half of the year. The increase in private consumption (around 4 per cent on an annual basis) was not due solely to the rise in households' disposable income, which is estimated to have increased by around 3.5 per cent, after adjusting net financial assets for inflation. The slight increase in the average propensity to consume is probably attributable to a combination of two factors: firstly a reduction in uncertainty about future incomes as a result of the strengthening of the upswing in economic activity and secondly the emergence of wealth effects caused by the growth in the public debt.

Industrial production rose throughout the year, stimulated by the sustained expansion in demand. An acceleration in the first quarter was followed by a slight decline in the second, but there was a revival in the third (Figure 5). Productive activity was particularly strong in the final quarter, with output 2.7 per cent higher than in the third. The rate of growth over the year as a whole was 5 per cent, one point higher than in 1987 despite there being two working days fewer in 1988. The rapid increase in production took the capacity utilization rate in industry slightly above the level recorded in the previous cyclical peak in 1980 (Figure 6).

The differences in the behaviour of the components of final demand were reflected in the figures for industrial production according to economic use, with sectors producing final capital goods showing a particularly rapid acceleration.

Figure 5

Industrial output, demand and stocks

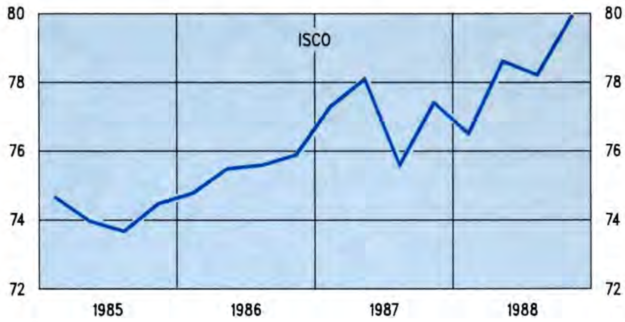


(1) Overall index of industrial production, data seasonally adjusted (1980 = 100); based on Istat data. The moving average is calculated from five centred terms. The forecasts are based on electricity consumption. — (2) Centred moving averages (three terms) of monthly replies to Isco-ME surveys of businessmen; seasonally adjusted, except for stocks of finished goods.

Though substantial, the growth in production could not keep pace with the increase in total demand, which was therefore met partly by rapidly running stocks down to below the level businesses consider normal (Figure 5). The need to rebuild inventories will help to carry the expansion in output into the first half of this year.

Figure 6

Capacity utilization rates in industry excluding construction



Employment, wages and prices

By contrast with other years, the increase in the number of employed workers was larger than that in self-employed persons (1.6 per cent and 0.5 per cent respectively). This reflected sectoral differences in employment developments, namely a reversal of the trend decline in employment in industry, where employed workers account for a higher proportion of total employment, a sharp contraction of 5 per cent in agricultural employment and a substantial increase of 2.5 per cent in the services sector. The growth of employment in industry is all the larger if account is taken of the reduction of around 55,000 in the number of full-time equivalent workers receiving compensation from the Wage Supplementation Fund between the first nine months of 1987 and the same period of 1988.

Although the workers receiving wage supplementation at the end of 1987 (estimated at around 260,000 worker equivalents in industry as a whole) represented a substantial reserve of manpower on which to draw to fill vacancies, the expansion in production and its distribution among different sectors and companies were such as to cause a fall of 10,000 in the number of unemployed in the narrow sense, breaking the upward trend that began in 1980.

These favourable developments made it possible to halt the rise in the average unemployment rate, which had been under way for a good many years. Nevertheless, the disparity between the North and the South of the country widened. The improvement in labour market

The behaviour of regulated prices and inflation in 1988

1. There are a number of ways in which the public sector can influence inflation, the most important being via its policy on public utility charges, the control of energy prices and changes in indirect taxation.

The behaviour of these three variables had contrasting effects last year. The modest rise in public utility charges and other regulated prices acted as a counterweight to the acceleration in prices determined by market forces. Table 1 shows that the annual average rate of increase in unregulated prices rose by about half a point between 1987 and 1988, owing mainly to the acceleration in the prices of private services, but that the rate of increase in controlled prices remained broadly unchanged at around 4.5 per cent.

Table 1

Behaviour of regulated and free-market prices

(percentage changes on year-earlier period)

	Weight (1)	1987	1988	Dec. 87	Dec. 88
Regulated prices	30.78	4.4	4.6	5.8	4.9
of which:					
Public utility charges	9.56	3.5	4.8	3.7	6.1
of which: controlled by PPCs (2)	*3.26*	*7.5*	*6.6*	*5.6*	*7.2*
electricity prices	*1.75*	*– 1.6*	*1.9*	*5.7*	*1.2*
Monitored prices	9.86	3.6	4.2	6.3	3.5
Free-market prices	69.22	4.9	5.3	4.9	5.6
Total	**100.00**	**4.8**	**5.0**	**5.2**	**5.4**

Source: Based on Istat data.
(1) Percentage share of the basket of consumer prices, base year 1985. — (2) Provincial Price Commissions; aggregate of prices of urban transport, taxis, bus operators, drinking water, hotel services, camp sites, funeral transport and museum entrance charges.

In the course of the year, however, public utility charges as a whole steadily caught up. The public service charges that are set at national level were not affected, or increased only marginally. It has been more than a year since the last increases in the charges for certain transport and communication services that affect consumer prices either directly or indirectly, such as railway and air fares, motorway tolls and telephone charges. In view of the length of time since the last adjustment, however, many public sector agencies have applied for increases, which are currently being examined by the Government.

By contrast, the twelve-month rate of increase in the charges for the group of public services provided on a local basis, which are controlled by the Provincial Price Commissions, exceeded 7 per cent in December. The pressures on these prices are such that the Interministerial Committee on Prices issued a co-ordinating directive on 9 December to reduce the discretionary powers of decentralized bodies to sanction increases in charges. The measure was also aimed at persuading authorities to stay within the target inflation rate for 1989, which the Government has set at a maximum of 3 per cent for all controlled prices, excluding rents.

2. The behaviour of domestic energy prices also helped to moderate inflation. If energy prices were excluded, the underlying rate of increase in consumer prices would have been 0.2 percentage points higher at the end of 1988. The moderating effect would have been much greater, however, if the renewed decline in oil prices had been passed on fully to domestic prices.

Retail energy prices are not determined solely by prices in the world market; they also depend on the operating margins of domestic energy producers and taxation levied on producer prices. In 1988 both of these factors reduced the effect of the oil price windfall on retail prices.

In September the energy sector's producer prices net of taxes were 1.4 per cent lower than a year earlier, compared with a fall of 12.8 per cent in the prices of the

conditions was confined to the North, where the unemployment rate declined by about one point; in the South, by contrast, it rose by 1.3 points to a level three times that in the North, while in the Centre it remained more or less unchanged (Table 5). The widening of the gap testifies not only to pronounced asymmetry in population growth and development potential between the opposite ends of the country but also to the extreme slowness with which the mechanisms for overcoming regional disequilibria in the labour market are still operating.

The rate of growth in per capita labour costs in industry excluding construction is estimated to *sector's intermediate inputs. In the oil refining sector, two separate factors contributed to this. First, the fall in the price of crude provided scope for a substantial increase in the profit margins of oil companies operating in the European countries to whose pre-tax prices Italian producer prices are indexed (Table 2). Secondly, this price link was weakened by an adjustment in the mechanism for determining industrial prices at the end of 1987.*

Table 2

Retail prices of oil products and their components

(percentage changes on year-earlier period)

	1987	1988 Producer price	1988 Tax	1988 Total
Price in Italy:				
Oil products (1)	2.4	−0.8	6.1	4.8
Memorandum items:				
World prices in lire:				
Crude oil (2)	9.2	−14.7	—	—
Oil products (3)	3.9	−7.8	—	—

Source: Based on data from Istat, the Ministry for Industry and the Commission of the European Communities.
(1) Weighted average of the prices of super and normal grade petrol, diesel fuel, heating oil and kerosene. At the end of 1987 excise duty represented 81.4 per cent of the average gross retail price of such products. — (2) Effective Italian import price, f.o.b. — (3) Aggregated prices net of tax in five European countries (France, Germany, the United Kingdom, Belgium and the Netherlands). The aggregate also includes fuel oil with a high sulphur content.

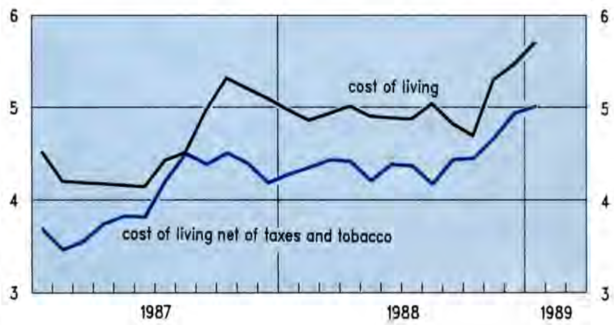
The year-on-year increase in the retail prices of oil products touched 5 per cent. In view of the slight fall in unit prices net of tax, the rise in prices including tax reflected the increases in excise duty on such products in February and August, which are estimated to have added around 0.1 percentage point to the general consumer price index on an annual basis.

3. The overall ex post effect that the tax measures had on prices can be seen by comparing movements in the full cost-of-living index with the behaviour of one excluding changes in indirect taxes and in the retail price of tobacco. In particular, the temporary acceleration in the 12-month rate in August displayed by the full index but not by the modified one is due entirely to the effect of the increase in the normal rate of VAT to 19 per cent; the renewed speeding up in November is attributable largely to the increase in tobacco prices, while the further acceleration in January can be ascribed partly to the standardization of the two lower rates of VAT at 4 per cent under Decree Law 550 of 30 December 1988. In the last two cases, however, the impact of the tax measures on the full index was coupled with a significant acceleration in the underlying rate of inflation.

Figure 1

Rate of inflation according to the cost-of-living index

(percentage change over the same month of the previous year)



have been similar to that recorded in 1987 (7.8 per cent). Only part of the increase can be ascribed to the adjustment of contractual minimum wages at national level and cost-of-living increases. Supplementary bargaining at company level was also a contributory factor; the many agreements concluded in the second half of the year provided for one-off payments and bonuses linked to corporate profits. Certain increases in social security contribution rates decided during the summer also affected labour costs. Contractual per capita wages in general government increased at a considerably faster rate than the average (10.2 per cent, compared with 7.3 per cent), whereas in industry excluding construction the rise was kept below the average (5.9 per cent).

Table 5

Unemployment and participation rates by region

(percentages)

	North	Centre	South	Italy
		unemployment rate		
1985	8.0	9.2	14.2	10.3
1986	8.0	9.7	16.5	11.1
1987	7.8	9.7	19.2	12.0
1988	6.9	9.9	20.6	12.0
		participation rate		
1985	43.5	42.3	37.0	40.9
1986	44.1	42.6	37.7	41.5
1987	44.5	42.5	38.0	41.8
1988	44.9	43.2	38.5	42.3

Source: Based on Istat data and the labour force survey.

Data from the Forum-Mondo Economico survey (Figure 7) suggest that business partly anticipated the revival of inflationary pressures in the course of the year, triggered by the sharp rise in the dollar prices of non-oil raw materials due to the expansion in economic activity in OECD countries.

Figure 7

Expectations of consumer and wholesale price inflation

(percentage changes on preceding quarter)

Source: Forum-Mondo Economico survey.

Despite the fall in the dollar price of oil, which in the case of Italian imports of crude came down from 18 dollars a barrel in December 1987 to 14 dollars a barrel the following November, the domestic retail prices of oil products increased (see insert). This was due partly to a modification of the automatic mechanism for revising such prices (the range over which corresponding prices in other European countries can fluctuate without triggering an adjustment in Italian prices was widened) and partly to an increase in duty. Moreover, the pre-tax prices of oil products in the five EEC countries used for the indexation mechanism decreased less than the price of crude oil. As a result, in December the final retail price of oil products was 2.5 per cent higher than a year earlier.

The rise in the world market prices of raw materials coupled with the growth in demand had an impact on prices in consumer countries, causing an acceleration in inflation or reversing the downward trend, as was to be seen from prices in the main EEC countries. Since consumer prices in Italy reacted later to the rise in raw material prices than in the other major Community countries, the inflation differential narrowed from 2.4 to 1.5 points between December 1987 and December 1988. On an annual average basis, however, it remained unchanged at 2 percentage points. In manufacturing industry variable unit costs accelerated rapidly in the first half of the year, owing mainly to the rise in the lira prices of imported inputs, which were affected by the decline in the nominal effective exchange rate of the lira in the first three quarters of the year. The rate of increase in the prices of domestic inputs over the same period remained at the average for 1987 (Table 6). In the second half of the year the prices of imported inputs accelerated further, while the increase in the prices of domestic inputs was about one point higher than in the first half. This cost pressure contrasted with a less pronounced increase in producer prices. Profit margins consequently declined, despite the procyclical effect of faster-than-average demand growth. In absolute terms, however, profits increased considerably owing to the high level of economic activity.

Measured by the cost-of-living index, the year-on-year trend rate of inflation declined slightly in the first quarter and then remained constant at 4.9 per cent in the second and third

Table 6

Variable unit costs and final output prices in manufacturing

(percentage changes on year-earlier period)

	1987	1988 Q1	1988 Q2	1988 Q3
Input prices:				
Domestic	3.8	4.1	3.7	4.2
of which: services	*5.8*	*5.7*	*5.4*	*5.4*
Imported	−1.4	5.0	6.8	7.8
of which: energy	*−5.9*	*−8.7*	*−13.2*	*−17.2*
non-energy raw materials	*−2.5*	*10.9*	*13.1*	*17.1*
Total	**1.9**	**4.4**	**4.8**	**5.4**
Unit labour costs	1.7	3.3	4.6	4.5
Variable unit costs	1.8	3.8	4.7	4.9
Output prices (1)	**2.3**	**3.0**	**3.4**	**4.9**

Source: Based on Istat data.
(1) Weighted, net of intrasectoral transactions.

(Figure 8). In the final quarter monthly variations averaging 0.6 per cent brought the trend rate back to the level recorded in the same quarter of 1987 (5.2 per cent). The January figure indicated a further increase to 5.7 per cent. A similar movement had occurred two quarters previously in wholesale prices, the trend rate of which continued to rise in both the third and fourth quarters, reaching 5.9 per cent in December.

Figure 8

Consumer and wholesale prices

(percentage changes on preceding quarter)

Source: Istat.

An examination of the behaviour of the components of the consumer price index, for which data are available up to December, shows that food prices rose by almost one percentage point less than the average trend rate of 5.4 per cent, other goods by one and a half points less and services by two points more. Services not subject to official price controls, which had already been showing rates of increase in excess of 7 per cent at the beginning of the year, had risen by 8.2 per cent by December.

The balance of payments on current account

According to provisional and partly estimated data, the current account of the balance of payments showed a deficit of around 5,500 billion lire in 1988, compared with one of 1,286 billion in 1987 (Table 7).

Thanks to the reduction in the energy deficit, there was only a small deterioration in the trade account net of freight and insurance on imports between 1987 and 1988, but the overall deficit on services and transfers increased by more than 3,500 billion lire. In particular, net receipts from tourism contracted further, by almost 1,500 billion lire, and net outflows of investment income increased by almost 500 billion lire. The deficit on other invisible items rose from 2,800 to around 4,500 billion lire, mainly owing to an increase in net official transfers.

According to customs data, which become available more quickly, merchandise trade gave rise to a deficit of 12,863 billion lire on a cif-fob basis, an increase of around 2,000 billion lire over 1987. Imports went up by 11.2 per cent in value, whereas exports rose by 10.7 per cent (Table 8). The reduction in the energy deficit contrasted with a deterioration of almost 5,000 billion lire in the balance for other sectors.

Preliminary data on price and volume movements are only available for the first eleven months of the year. In volume terms exports were 5.4 per cent higher than in the same period of 1987, while imports showed an increase of 7.0 per cent; the terms of trade improved by one percentage point.

Table 7

The balance of payments on a transactions basis

(balances in billions of lire)

	1987	1988		
		H1	H2 (1)	Year (1)
Current account	**−1,286**	**−4,913**	**−500**	**−5,500**
Goods (fob-fob)	141	−2,498	2,000	−500
Foreign travel	9,902	3,454	5,000	8,500
Investment income	−8,573	−4,726	−4,000	−9,000
Other	−2,756	−1,143	−3,500	−4,500
Capital movements, errors and omissions	**2,488**	**2,090**	**4,500**	**6,500**
Loans and investment	*2,690*	*4,594*	*6,500*	*11,000*
Inward investment	539	6,899	9,000	16,000
Foreign loans	12,337	4,728	6,000	10,500
Outward investment	−7,816	−5,437	−8,000	−13,500
Italian loans	−2,370	−1,596	−500	−2,000
Other capital movements, errors and omissions	*−202*	*−2,504*	*−2,000*	*−4,500*
Overall balance	**1,202**	**−2,823**	**4,000**	**1,000**
Bank capital flows	5,573	4,695	5,000	10,000
Variation in official reserves	−6,775	−1,872	−9,000	−11,000

(1) Provisional and partly estimated data, rounded to the nearest 500 billion lire; the annual total therefore does not correspond exactly to the sum of the half-yearly data.

Table 8

Foreign trade: values, prices, volumes and main determinants

(percentage changes)

	1987/1986	1988/1987 (1)
Exports (2)		
Value	4.6	10.7
Average unit value	1.0	5.2
Volume	3.5	5.4
Imports (2)		
Value	9.3	11.2
Average unit value	−1.5	4.1
Volume	11.0	7.0
Domestic demand	4.5	4.1
Capacity utilization (3)	2.0	2.5
World demand (4)	5.1	9.0
Output prices (3)	2.9	4.0
Competitiveness (5)	2.0	−1.6

Source: Based on Istat, Isco and OECD data.
(1) The figures for the volume and average unit value of exports and imports relate to the first eleven months, those for competitiveness to the twelve months to the end of September. — (2) The 1987 figures are the final figures used in the Government Report on the Economic Situation. — (3) Manufacturing industry. — (4) Exports of industrial countries. — (5) Wholesale prices; a positive sign indicates a loss in competitiveness.

The growth in the volume of trade partly reflected the expansion in demand, both at home and abroad. Changes in competitive conditions had only a moderate effect. According to seasonally adjusted data, there was an acceleration in exports between the two halves of the year and an even stronger quickening in the pace of imports, owing largely to rising energy imports towards the end of the year.

The growth in the total volume of imported goods was mitigated by a fall of 4 per cent in purchases of energy abroad. The contraction in energy imports, which was most pronounced in the first half of the year, was due to cyclical factors such as destocking and the mild weather, rather than structural energy-saving measures (see insert). Excluding this sector, the growth in the volume of imports exceeded 8 per cent, twice the rate of increase in domestic demand. In 1987 the ex post elasticity of non-energy imports to domestic demand had been far higher, presumably owing to the sharp acceleration in the demand for capital goods, which traditionally exceeds domestic supply. The domestic output of this sector recovered somewhat in 1988.

The rise in the volume of exports did not keep pace with the vigorous growth in world demand; measured in terms of the industrial countries' total exports, world demand was 8.7 per cent higher in the first half of 1988 compared with the same period of 1987. OECD estimates suggest that world trade probably continued to increase rapidly in the months that followed, bringing the growth in the year as a whole to more than 9 per cent. According to recent calculations by the IMF, Italy's export markets probably grew by around 6.5 per cent last year, much more slowly than other markets in which Italy is less strongly represented, such as Japan. The loss of market share in volume terms does not seem to be ascribable to changes in price competitiveness. In fact, in the twelve months to September Italy's competitiveness vis-à-vis its main competitors and the EEC countries improved slightly, by 1.6 and 0.8 per cent respectively on the basis of wholesale prices.

The reasons why the volume of exports grew more slowly than world demand appear to lie not only in the short-term effects of the geographic composition of trade but also in two other factors, which are partly interconnected. First, the strong revival in investment worldwide may have channeled part of world demand towards high-technology products, in which Italy is less specialized. Secondly, high capacity utilization rates may have prompted domestic producers to give priority to satisfying domestic rather than export demand.

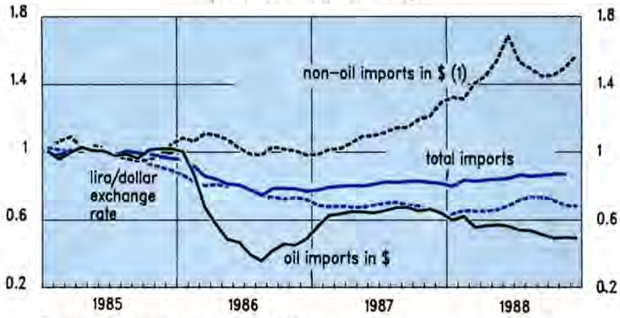
In view of the stability of the lira/dollar exchange rate over the year as a whole, the increase in the average unit value of imports reflected the rise of 32 per cent in the dollar prices of non-oil raw materials in world markets, which was only partly offset by the fall of 15 per cent in oil prices (Figure 9). The rise in the average unit value of exports was made possible by the growth in world demand. Profit margins on exports, which had been squeezed the previous year when demand was less buoyant, were thus restored. In recent years variations in profit margins in line with changes in demand have made it possible to stabilize Italy's share of the world market in value terms.

The worsening of the non-energy trade balance was evident in all the sectors that had been in deficit in 1987 (Table 9). The most pronounced deterioration, of more than 2 trillion lire, occurred in ferrous and non-ferrous minerals, while the deficit on chemicals increased by 1.4 trillion lire and that on motor vehicles and engines by 1 trillion lire. The surplus generated by sectors that traditionally show a positive balance contracted slightly, mainly owing to the adverse trend in trade in engineering products and, to a lesser degree, in textiles, leather goods and clothing.

Figure 9

Average unit values of imports and main price determinants

(Indices, 1985 = 1)



Sources: Economist, Istat and IMF.
(1) Economist index.

Data on the geographic distribution of merchandise trade, which are available only for the period from January to November, indicate that the deterioration in the overall balance was due mainly to an increase of around 800 billion lire in the deficit vis-à-vis the European Community and a contraction of 1,100 billion lire in the surplus with the United States (Table 10). The deterioration vis-à-vis the EEC resulted from increases in the deficits on trade with Germany (by more than 2,600 billion lire, owing to an increase of almost 16 per cent in imports and one of 9 per cent in exports) and the Netherlands (by around 800 billion lire), which were only partly offset by larger surpluses vis-à-vis Spain, Greece, Portugal and especially the United Kingdom, where the surplus rose from 2,400 to 3,800 billion lire, with exports increasing by almost 20 per cent. The sharp reduction of more than 2,800 billion lire in the deficit with OPEC countries was outweighed by an increase in the deficits with Japan, Eastern European countries, non-EEC European countries and other developing countries.

Table 9

Merchandise trade by product group

(billions of lire)

	EXPORTS (fob)		IMPORTS (cif)		BALANCE	
	1987	1988	1987	1988	1987	1988
Agriculture, forestry and fishery products	4,183	4,541	13,185	14,051	−9,002	−9,510
Energy products	3,726	3,238	22,595	19,112	−18,869	−15,874
Ferrous and non-ferrous metals	6,517	7,939	13,959	17,568	−7,442	−9,629
Non-metallic mineral products	6,065	7,188	2,830	3,436	3,235	3,752
Chemical products	12,397	14,426	19,655	23,109	−7,258	−8,683
Engineering products	49,384	55,357	34,572	41,659	14,812	13,698
Transport equipment	14,097	15,923	16,425	18,494	−2,328	−2,571
Food, beverages and tobacco products	6,246	7,005	14,169	15,235	−7,923	−8,230
Textiles, leather products and clothing	30,250	31,088	10,786	12,086	19,464	19,002
Other	17,589	20,491	13,421	15,309	4,168	5,182
Total (1)	**150,454**	**167,196**	**161,597**	**180,059**	**−11,143**	**−12,863**

Source: Istat.
(1) The total for 1987 does not correspond to the sum of the final aggregate data used in the Government Report on the Economic Situation.

The erosion of the surplus from tourism continued in the first nine months of the year, owing mainly to residents' increased propensity for foreign travel. In nominal terms, receipts remained more or less unchanged by comparison with the same period of 1987, but in real terms they declined by almost 5 per cent. Average real per capita expenditure by foreign visitors declined in the same proportion, since initial estimates suggest that overnight stays by foreigners in Italy remained almost static. Total spending by Italian travellers abroad, by contrast, increased by almost one-third in nominal terms and by more than 25 per cent in real terms. It is estimated that the surplus for 1988 as a whole was no higher than 8,500 billion lire, a deterioration of 1,500 billion by comparison with 1987.

Net outflows of investment income increased by more than 500 billion lire in the first three quarters of 1988 owing to the increase in net external debt and the rise in international interest rates. It is estimated that net interest payments for the year as a whole came to 9 trillion lire.

The deficit on official transfers, which had declined in 1987, again assumed substantial proportions, amounting to around 3,500 billion lire in the first three quarters of the year. On the expenditure side, contributions to the EEC increased by around 700 billion lire, while transfers to non-Community countries, mainly in the form of development aid, rose by almost 1,400 billion lire. On the receipts side there was a slight decrease in Community subsidies for agriculture.

Capital movements and the exchange rate

There were very substantial inflows of capital last year, thanks mainly to expectations of stability in the lira exchange rate, especially in the fourth quarter, and the continuing interest rate differential in Italy's favour. The liberalization of exchange controls drew the attention of international investors to a financial market that was now more open and better integrated. Despite the current account deficit, the overall balance of payments registered a surplus of 1,091 billion lire, compared with one of 1,202 billion in 1987. There was an additional net inflow of 9,864 billion lire via banking channels, about twice the

Table 10

Merchandise trade by country and area

(billions of lire)

	EXPORTS		IMPORTS		BALANCE	
	January-November		January-November		January-November	
	1987	1988	1987	1988	1987	1988
EEC	**76,496**	**86,916**	**82,675**	**93,911**	**−6,179**	**−6,995**
Belgium-Luxembourg	4,639	5,240	7,296	7,951	−2,657	−2,711
France	22,377	25,219	21,235	24,199	1,142	1,020
Germany	25,527	27,673	30,905	35,693	−5,378	−8,020
Netherlands	4,224	4,674	8,152	9,342	−3,928	−4,668
United Kingdom	10,128	12,136	7,726	8,316	2,402	3,820
Ireland	348	397	651	973	−303	−576
Denmark	1,167	1,190	1,532	1,611	−365	−421
Greece	1,980	2,443	1,473	1,362	507	1,081
Spain	4,674	6,116	3,248	3,941	1,426	2,175
Portugal	1,432	1,828	457	523	975	1,305
United States	**13,155**	**13,426**	**7,853**	**9,222**	**5,302**	**4,204**
Japan	**2,180**	**2,856**	**3,112**	**4,176**	**−932**	**−1,320**
Canada	**1,586**	**1,687**	**962**	**1,115**	**624**	**572**
Eastern Europe	**4,051**	**4,212**	**5,934**	**6,485**	**−1,883**	**−2,273**
of which: USSR	2,493	2,432	3,290	3,608	−797	−1,176
OPEC	**6,815**	**6,951**	**12,000**	**9,308**	**−5,185**	**−2,357**
of which: Algeria	907	914	2,053	1,841	−1,146	−927
Saudi Arabia	1,715	1,687	1,584	1,158	131	529
Libya	1,293	1,467	2,744	2,946	−1,451	−1,479
Iran	596	415	1,251	627	−655	−212
Other	**31,706**	**35,368**	**33,661**	**39,071**	**−1,955**	**−3,703**
of which: China	1,241	1,525	1,200	1,717	41	−192
Total . . .	**135,989**	**151,416**	**146,197**	**163,288**	**−10,208**	**−11,872**

Source: Istat.

inflow recorded in 1987. Official reserves therefore increased by 10,955 billion lire after exchange rate adjustments and the revaluation of gold reserves.

Non-bank capital movements and errors and omissions gave rise to net inflows of around 6,500 billion lire in 1988, compared with 2,500 billion in 1987. As far as medium and long-term capital is concerned, the main feature last year was an inflow of more than 26 trillion lire in foreign capital, over twice the amount recorded in 1987. Though less than in 1987, loans from abroad were still substantial, at more than 10 trillion lire. Inward investment, on the other hand, reached an unprecedented total of 16 trillion lire, equivalent to more than 1.5 per cent of GDP. This item began to increase steadily in mid-1987, with monthly inflows averaging more than 1.3 trillion lire, and did not slow down until the last two

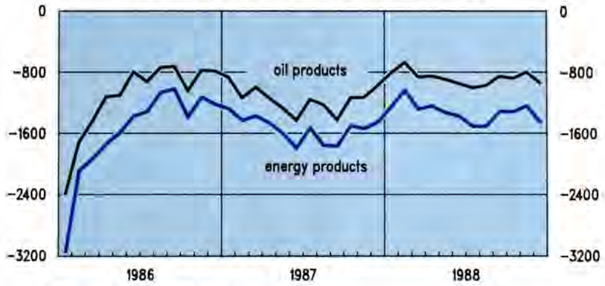
Trade in energy products during 1988

The balance of trade in energy products improved by 3 trillion lire in 1988 compared with 1987, thus reducing the deficit from close on 19 trillion lire to just under 16 trillion. This outturn is entirely attributable to the oil sector, net imports of crude oil and oil products having fallen in value by 24 per cent after recording a modest expansion in the previous year (Figure 1).

Figure 1

Energy and oil balance

(seasonally adjusted, in billions of lire)



Source: Based on Istat data.

This considerable reduction in the oil bill was largely the result of the fall in the international prices of crude oil; the average unit value of imports declined from 18 dollars per barrel in December 1987 to 13.9 dollars last December. The fall for the year as a whole averaged 15.2 per cent; expressed in lire, the decrease was of the same magnitude, thanks to the substantial stability of the lira's exchange rate with the dollar by comparison with 1987 (Table 1).

The favourable effect of the decline in prices was magnified by a marked reduction in the volume of imports (5 per cent for crude oil and 8 per cent for refined products). This was the result of a combination of factors. Firstly, the rise in domestic consumption of oil products was much slower than the growth in economic activity (only 0.7 per cent during the first ten months of 1988), owing both to the continuing substitution of natural gas for oil and to the particularly mild winter. Secondly, demand was met by reducing stocks, partly in order to increase domestic production of oil products. It thus proved possible to hold down imports, with a resulting saving of almost 1 trillion lire over the year in terms of the trade balance.

Table 1

Quantities and prices of energy imports

(percentage changes on year-earlier period)

	Crude oil		Refined oil products		Natural gas	Solid fuels	Electricity	Total energy	
	Quantity	A.U.V. (1)	Quantity	A.U.V.	Quantity	Quantity	Quantity	Quantity	A.U.V.
1986									
H 1	6.5	−46.8	−2.7	−46.2	−5.5	15.4	25.0	2.5	−42.3
H 2	24.0	−67.0	−9.8	−62.3	1.2	−15.0	−35.0	8.2	−62.2
Year	15.0	−56.5	−6.2	−53.7	−2.7	−0.5	−6.6	5.3	−51.7
1987									
H 1	−3.5	−24.1	3.8	−20.8	22.1	−14.6	−17.1	−0.4	−25.6
H 2	−9.2	40.8	46.5	31.4	9.4	8.3	43.1	6.2	30.1
Year	−6.5	−0.7	24.3	−0.9	16.6	−4.3	4.7	2.9	−5.6
1988									
H 1	−14.0	−11.2	−2.0	−15.6	−8.1	−6.0	38.5	−7.1	−5.7
H 2 (2)	3.7	−19.8	−12.6	−22.9	24.7	−6.0	31.4	−1.1	−17.2
Year (2)	−5.0	−15.8	−8.0	−19.6	5.2	−6.0	35.0	−4.0	−11.9

Source: Based on Istat, ENEL and ENI data.
(1) Average unit value. — (2) Provisional and partly estimated.

In the first half the volume of imports of natural gas and solid fuels also declined. In both cases the change was attributable to a reduction in consumption for heating purposes, which in turn may have been partly due to structural factors such as the modernization of heating equipment and better insulation, as well as to the mild weather. Imports of natural gas nonetheless picked up again in the second part of the year, stimulated by strong demand in industry.

Another feature of trade in energy products during 1988 was the surge in net imports of electricity, which increased by 35 per cent on average for the year. Direct purchases abroad were sufficient to meet over three quarters of the increase in demand on the national grid (Table 2) and also covered 14 per cent of overall electricity requirements. If one considers the energy balance of Enel alone (that is, net of domestic producer-consumers), net imports of electricity in millions of Kilowatt-hours were equal to hydroelectric production.

This increase in electricity purchases from abroad is part of a medium-to-long term trend that began at the end of the seventies and became quantitatively significant from 1984 onwards; since then the average annual increase has exceeded 20 per cent.

The growing recourse to foreign sources at a time of rapidly rising consumption is a necessary consequence of the limited margins of productive capacity available at competitive prices on the domestic market. It would nonetheless be wrong to minimize the considerations of economic expedience; for example, since Enel has cooperated in the construction of power stations in France, it is now able to purchase electricity there at economically advantageous prices.

To sum up, the factors that led to a reduction in the external energy deficit in 1988 were principally of a cyclical nature. A recovery of international prices for crude oil, of which there are already signs, and a return to stockbuilding could cause it to rise again.

Table 2

Demand for electricity on the Italian grid

(millions of kWh)

	Primary electricity (1) (a)		Thermoelectricity (b)		Auxiliary services and pumped storage (c)		Net imports	Electricity supplied by grid a+b+d−c	
	Total	% change (2)	Total	% change (2)	Total	% change (2)	(d)	Total	% change (2)
1987									
1st quarter	8,741	−26.9	44,841	20.3	4,147	3.9	5,069	54,504	4.5
2nd quarter	12,750	−3.1	34,799	32.4	3,493	4.9	6,643	50,699	4.2
3rd quarter	12,566	−21.6	34,691	15.0	3,328	10.7	5,756	49,685	5.8
4th quarter	11,688	22.0	41,296	−2.9	3,724	−11.0	5,678	54,938	5.3
Year	45,745	−18.4	155,627	14.2	14,692	1.3	23,146	209,826	4.9
1988									
1st quarter	10,296	17.8	42,645	−4.9	3,685	−11.1	7,426	56,682	4.0
2nd quarter	14,105	10.6	33,498	−3.7	3,247	−7.0	8,799	53,155	4.8
3rd quarter	12,344	−1.8	36,272	4.6	3,408	2.4	6,830	52,038	4.7
4th quarter	9,724	−16.8	44,485	7.7	3,922	5.3	8,199	58,486	6.5
Year	46,469	1.6	156,900	0.8	14,262	−2.9	31,254	220,361	5.0

Source: ENEL.
(1) Hydro, geothermal and nuclear. — (2) On year-earlier period.

Table 11

Inward portfolio investment

(billions of lire)

	Government securities					Bonds	Shares	**Total**
	Total	Treasury bills	Treasury bonds	Securities in ECUs	Treasury credit certificates			
1987 — 1st qtr.	1,591	−176	2	1,075	690	−63	−1,579	**−51**
2nd "	−1,822	59	−551	710	−2,040	35	−157	**−1,944**
3rd "	−1,144	−210	−226	−79	−629	−10	−670	**−1,824**
4th "	998	894	−167	432	−161	64	−1,957	**−895**
Year	−377	567	−942	2,138	−2,140	26	−4,363	**−4,714**
1988 — 1st qtr.	2,187	1,417	4	478	288	−101	−187	**1,899**
2nd "	2,963	−519	−72	3,475	79	−67	−401	**2,495**

months of 1988. In the first half of last year inward portfolio investment came to 4,400 billion lire, around two-thirds of total foreign investment; modest disinvestment from bonds and shares contrasted with purchases of Italian government securities totaling almost 5,200 billion lire, of which 4,000 billion was in securities denominated in ECUs (Table 11).

Outflows of Italian capital amounted to around 2,000 billion lire in loans and 13,500 billion lire in investment. Both direct and portfolio investment were considerably higher than in the previous year. During 1988 Italian portfolio investment abroad averaged more than 600 billion lire a month. This appears to be consistent with a continuation of the process of portfolio adjustment by residents following the removal of the restrictions imposed in May 1987.

The increase in the banks' net external liabilities was particularly large in the last quarter of 1988, amounting to more than 8 trillion lire. It was due to strong domestic demand for foreign currency loans, boosted in the latter part of the year by the entry into force of the new exchange control legislation, which allows residents to take up bank loans in foreign currency for purposes other than foreign trade. In October the growth in the banks' net liabilities in foreign currencies was balanced by a reduction of equal size in their net external debtor position in lire, encouraged by the removal of the restrictions on assets in external lire. In this regard, the new regulations only prohibit the banks from maintaining a net creditor position, and have thus enabled them to increase their lira assets vis-à-vis non-residents. Adjustment to the new regime appears to have been completed by the end of October, however, with the result that in November and December the increase in the banks' net external indebtedness in foreign currencies was fully reflected in their overall net external debtor position, which was in excess of 45 trillion lire at the end of the year.

Against this background of increasing capital mobility, the monetary authorities decided on 17 February to bring reserve requirements on bank deposits in foreign currencies into line with those on domestic and external lira deposits.

The Italian banking system, including the Italian branches and subsidiaries of foreign banks, confirmed its position in international banking business in the first half of the year; at the end of June 1988 Italian banks held 4.3 per cent of international assets reported to the BIS, compared with 4.2 per cent at the end of 1987.

The trade-weighted nominal exchange rate of the lira declined by an average of 3.1 per cent between 1987 and 1988. The depreciation against EEC currencies came to 3.0 per cent but there was only a negligible loss in value against the dollar. In the first half of the year the lira moved downwards within the band of fluctuation of the EMS and depreciated against the dollar. From the end of the summer onwards the volume of foreign exchange offered against lire in the exchange market began systematically to exceed demand. The Bank of Italy absorbed part of the excess, enabling it to increase its foreign exchange reserves by more than 5 trillion lire in three months, but it also allowed the lira to appreciate significantly. During December the currency rose to a position close to the lower margin of the narrow band of fluctuation within the EMS; by the end of the year it was no more than 2.2 percentage points below its central rate against the Deutschemark. At the beginning of January 1989 the lira rose above the lower limit of the narrow band of fluctuation; by around 10 February it was 0.2 per cent higher than in December against the EEC currencies and 3.6 per cent lower against the US dollar.

Public finances

Net of settlements of past debts, the state sector borrowing requirement amounted to 123.85 trillion lire in 1988 (Table 12). Despite the substantial increase in revenue, attibutable primarily to the measures adopted during the year, this outturn exceeded all the objectives that had been set in the formulation of budget policy: 109.5 trillion in September 1987, 100 trillion in November of the same year and 114.5 trillion in May 1988. It also exceeded the 118 trillion outturn that the Treasury had forecast last September.

Compared with 1987, the state sector borrowing requirement increased by about 10 trillion lire, but remained virtually unchanged in relation to GDP at around 11.5 per cent. When assessing this result, it should be noted that the need for funds was increased as a result of the disbursement by the Deposits and Loans Fund of loans amounting to more than 2.8 trillion lire to local authorities to cover deficits recorded in prior years; unlike the similar operations carried out by the government in earlier years, these loans were not included among the "settlements of past debts". The primary borrowing requirement, i.e. that net of interest payments decreased slightly, from 37.4 to 36.35 trillion lire, and in relation to GDP declined from 3.8 to 3.4 per cent, continuing the downward trend under way since 1985, when it stood at 5.7 per cent. However, the economic and financial planning document the Government presented in May 1988 had indicated a target of 2.8 per cent.

Table 12

Selected public finance balances

(billions of lire)

	1987			1988		
	H 1	H 2	Year	H1	H2	Year
State sector:						
Borrowing requirement, net of settlements of past debts	46,704	66,955	113,659	51,201	72,654	123,855
as a % of GDP			(11.6)			(11.5)
Settlements made in cash	72	60	132	58	6	64
Settlements made in securities	—	421	421	60	672	732
Total borrowing requirement	46,776	67,436	114,212	51,319	73,332	124,651
as a % of GDP			(11.6)			(11.6)
Public sector:						
Borrowing requirement, net of settlements of past debts	47,789	65,947	113,736	51,837	72,202	124,039
as a % of GDP			(11.6)			(11.6)
Settlements made in cash	72	60	132	58	6	64
Settlements made in securities	—	421	421	60	37	97
Total borrowing requirement	47,861	66,428	114,289	51,955	72,245	124,200
as a % of GDP			(11.6)			(11.6)

Net borrowing by general government, which is not affected by financial transactions, increased from 102.9 to 109 trillion lire. The difference compared with the rise in the state sector borrowing requirement was mostly due to the loans granted by the Deposits and Loans Fund to local health authorities. These loans actually pertain to outlays that had already been entered in the general government accounts, where health expenditure is recorded on an accruals basis. The ratio of net borrowing to GDP declined by 0.3 percentage points, compared with falls of 1.1 and 0.9 points in 1986 and 1987 respectively. The improvement in this balance was due to an increase in revenue equivalent to 0.7 per cent of GDP. On the other hand, the increase in expenditure was mainly fueled by the rise in debt interest.

The provisional outturn estimated by Isco indicates that about half the net borrowing reflected the deficit on current account, which amounted to 55 trillion lire, as against 54.1 trillion in 1987. There was a larger increase in the deficit on capital account, which rose from 48.8 to 54 trillion as a result of increases of around 10 per cent in direct investment and investment grants.

The public finances benefited from the persistence of the expansion in economic activity. The upturn in employment boosted personal income tax receipts and social security contributions, while further reducing the benefits paid by the Wage Supplementation Fund. However, even though the expansion in economic activity was greater than had been forecast, the budget outturn fell far short of the objectives laid down in the Government's May 1988 planning document. As in previous years, the divergence from these objectives depended on the inadequacy of the corrective action taken on the expenditure side. The plan announced when the Finance Bill was presented to Parliament in November 1987 foresaw economies corresponding in amount to the proceeds of new revenue-raising measures. In particular, state sector expenditure was to have fallen by about half a percentage point in relation to GDP. The only significant spending cuts actually enacted were those concerning prescription charges and disability pensions, while expenditure was pushed up by the new wage agreement covering the school system and improved social benefits, some of which had been enacted in earlier years.

As in previous years, the containment of the deficit thus depended mainly on action on the revenue side. The total effect of the revenue-raising measures introduced during the year exceeded 9 trillion lire. A first package of measures regarding direct and indirect taxes and social contributions was enacted at the beginning of the year and boosted revenue by about 3 trillion lire, after taking account of the relief granted in respect of personal income tax and health service contributions. At the end of May another package was adopted. This basically comprised indirect tax measures and yielded about 4.5 trillion. The budgetary action was completed in July with other increases in indirect taxes yielding about 1.7 trillion. It should be noted, however, that part of the increase in revenue in 1988 was again achieved with measures that do not produce lasting effects, such as earlier payment of VAT and larger preliminary payments of direct taxes.

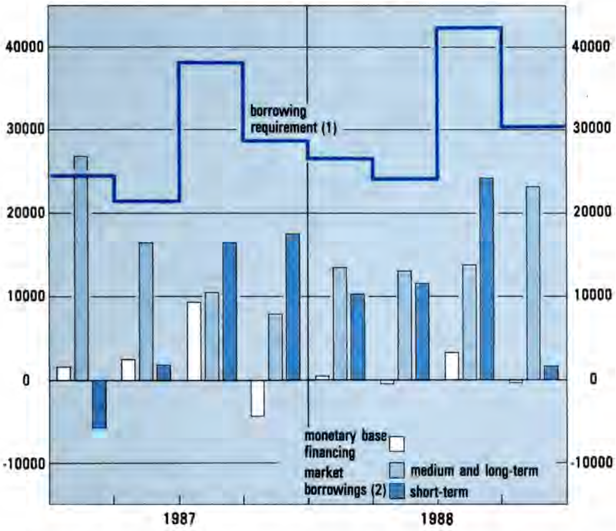
In contrast with the immediately preceding years, the increase in tax revenue in relation to GDP was not fully reflected in net borrowing, but was mostly absorbed by the increase in debt interest. Last year the rise in the burden of debt service was no longer curbed by the gradual fall in interest rates that had occurred up to 1987, in parallel with the slowdown in inflation. The greater recourse that had to be made to Treasury bills to finance the borrowing requirement was another factor causing the interest burden to increase, since the interest on this instrument is recorded in the accounts at issue. In total, interest payments rose in line with the increase in the public debt, which expanded from 910 trillion lire at the end of 1987 to 1,035 trillion at 31 December 1988.

In the second half of 1988 the state sector borrowing requirement, net of settlements of past debts, amounted to 72.65 trillion lire, as against 66.95 trillion in the corresponding period in 1987. The increase in the borrowing requirement was spread almost uniformly over the four quarters (Figure 10). The effects of the tax measures adopted were concentrated in the last part of the year, but they were not enough to produce the downturn in the borrowing requirement that would have kept the total for the year within the limit of 118 trillion forecast in September 1988.

Market sales of government securities financed 83 per cent of the state sector borrowing requirement in 1988. Compared with 1987, there was a small decrease in the proportion of net issues of medium and long-term securities. By contrast, the share of Treasury bills denominated in lire and ECUs rose by 10 percentage points, while that of central bank financing fell from 6.2 to 2.4 per cent.

Figure 10

State sector borrowing requirement and its financing



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

The main items of the public accounts

The provisional results for the year estimated by Isco indicate that general government expenditure on current account increased by 9.9 per cent, about half a percentage point more than GDP (Table 13). The acceleration compared with the previous year, when this aggregate grew by 7.2 per cent, was mostly attributable to the increases in interest payments and social benefits.

Table 13

General government income statement

(billions of lire; % changes)

	1987	1988	1987/1986	1988/1987
EXPENDITURE				
Wages and salaries	117,244	127,000	12.7	8.3
Intermediate consumption	48,414	53,000	14.8	9.5
Social services	166,897	184,700	8.8	10.7
Production subsidies	25,963	28,100	−1.7	8.2
Debt interest	80,070	89,100	5.8	11.3
Other	5,413	6,000	−56.3	10.8
Total current expenditure	444,001	487,900	7.2	9.9
as a % of GDP	*45.2*	*45.4*		
Investment	34,702	38,300	15.8	10.4
Investment grants	15,062	16,600	−5.4	10.2
Other capital expenditure	596	700	−10.9	17.4
Total capital expenditure	50,360	55,600	8.2	10.4
Total expenditure	**494,361**	**543,500**	**7.3**	**9.9**
as a % of GDP	*50.3*	*50.6*		
REVENUE				
Direct taxes	131,490	146,700	13.3	11.6
Indirect taxes	92,919	110,700	13.4	19.1
Social security contributions	136,645	147,200	9.5	7.7
Other	28,820	28,300	−7.1	−1.8
Total current revenue	389,874	432,900	8.9	11.0
Capital revenue	1,555	1,600	−40.0	2.9
Total revenue	**391,429**	**434,500**	**8.5**	**11.0**
as a % of GDP	*39.8*	*40.5*		
Net borrowing	**102,932**	**109,000**	**2.9**	**5.9**
as a % of GDP	*10.5*	*10.2*		
Borrowing net of debt interest	22,862	19,900	−6.2	−13.0
as a % of GDP	*2.3*	*1.9*		

Source: Isco.

Social benefits, which are the largest expenditure item, increased by 10.7 per cent, compared with 8.8 per cent in 1987. This result was influenced by a number of measures to improve pensions and family allowances, some of them approved in prior years. Those regarding pensions mainly concerned the special schemes for the self-employed. Under Law 140/1985 the minimum benefit payable under these schemes was raised to the level of the minimum for wage and salary earners at a cost of around 2.5 trillion lire. Expenditure on pensions was also increased by the effects of the last of the improvements approved in 1985 to attenuate distortions depending on the year of retirement and to pay arrears in respect of the topping-up of the benefits of recipients entitled to more than one pension to the minimum level of each pension. The latter action was in accordance with the decision of the Constitutional Court requiring this to be done back to 1983. Total expenditure on pensions rose by around 11 per cent, even though the mechanism linking pensions to real earnings did not trigger an increase on 1 January 1988 since the index used had not risen in the reference period. Spending on family allowances rose as a result of the reform of the system, which took effect on 1 January 1988. The change has led to a substantial increase in outlays to a large number of lower income families. In addition, many middle-income families whose benefits had been suspended in 1986 qualified again under the new scheme.

The final figures for wages and salaries indicate an increase of 9.5 per cent, net of withholding tax and social security contributions. When assessing this result, it must be remembered that the 1987 wage bill included amounts attributable to the previous year but not paid until after the conclusion of the wage agreement for the period 1986-88. The rise in wages and salaries reflected the pay increases granted to school staff during the year (leading to an extra outlay of 1 trillion lire) and the increases provided for in the three-year wage agreement. The increase in the number of public sector employees also contributed.

The interest paid on the public debt was equivalent to 8.3 per cent of GDP, with that paid by the state sector increasing by more than 14 per cent compared with 1987. As mentioned above, the larger interest burden was primarily due to the growth in the debt itself and the increase in the proportion of the borrowing requirement financed with Treasury bills. In fact, the interest paid on bills rose by 30 per cent, while that paid on Treasury credit certificates increased by only 3 per cent. This low figure was influenced by the fall in 1987 in the reference rates on six and twelve-month Treasury bills.

Budget fiscal revenues (including amounts used for refunds but excluding accounting transactions with the special statute regions and tax collection commissions) totaled 248.65 trillion lire, an increase of 14.5 per cent on 1987. If account is taken of the over-imputation of almost 1 trillion lire of withholding tax on public sector wages and salaries compared with their actual amount, the increase was equal to about 14 per cent. In relation to GDP, tax revenue amounted to 23.1 per cent, a rise of nearly one percentage point.

These results were mostly attributable to the sharp rise in the revenue produced by the withholding tax on private sector wages and salaries, the increase in the yield of the withholding tax on income from government securities and an upturn in the receipts from VAT and other indirect taxes, principally as a result of the rate increases introduced in 1987 and during the year. The changes in indirect taxes are estimated to have produced over 10 trillion lire of additional revenue in 1988, thus playing a major part in the increase in the tax-to-GDP ratio and shifting the distribution of tax revenues in favour of indirect taxation, the share of which rose from 42.6 to 43.8 per cent. This shift will continue in 1989, partly as a result of the reform of the personal income tax system approved at the end of last year (see insert). As for direct taxes, the increases in preliminary payments were virtually offset by those in personal income tax allowances. Overall, indirect and direct tax revenues rose in relation to GDP by respectively 0.7 and 0.3 percentage points.

Revenue from IRPEF personal income tax rose by 18 per cent, fueled not only by the 22 per cent increase in the imputed withholding tax on public sector wages and salaries but also by the 15 per cent rise in the withholding tax levied on private sector employees. This result was influenced both by the rise in earnings and by fiscal drag, which was only offset in part by the raising of allowances. The final payments of personal income tax (IRPEF and ILOR) under the self-assessment system increased by about 10 per cent; the corresponding preliminary payments were affected by the raising of the rate from 92 to 95 per cent of the previous year's liability and rose by 17 per cent.

Changes in IRPEF (personal income tax)

Decree Law no. 550 of 31 December introduced some changes in the personal income tax with the aim of curbing the effect of inflation-induced increases in the tax burden and attenuating the progressiveness of the tax. In line with the changes made in other countries' systems of personal income taxation, the number of income brackets has been reduced and the rates have been lowered, especially for middle and high-income taxpayers.

Table 1

IRPEF allowances

(thousands of lire)

	1986 (1)	1987 (2)	1988 (2)	1989 (3)	1989 (4)	1989 (5)
All taxpayers						
family allowances:						
spouse	360	420	462	504	504	552
1 child	48	48	48	48	48	48
2 children	96	96	96	96	96	96
3 children	144	144	144	144	144	144
4 children	192	192	192	192	192	192
5 children	240	240	240	240	240	240
6 children	288	288	288	288	288	288
other children	48	48	48	48	48	48
other dependents	96	96	96	96	96	96
Wage and salary earners						
production of income	492	492	516	540	540	552
additional allowance (incomes up to Lit. 11 mn)	156	156	228	228	180	180
Self-employed workers						
additional allowance (incomes up to Lit 6 mn)	150	150	150	150	150	150

(1) Decree Law 57/1986, ratified as Law 121/1986. — (2) Decree Law 533/1987. The provisions on income tax allowances were reintroduced in Decree Law 4/1988 (suppressing the increases originally proposed for 1989) and Decree Law 70/1988 (ratified with amendments as Law 154/1988). — (3) Bill tabled on 22.10.1987. — (4) Bill tabled on 5.9.1988. — (5) Decree Law 550/1988.

Following the modifications introduced in 1986 (see nos. 2 and 3 of the Bulletin*) fiscal drag was offset only in part through increases in some of the allowances (Table 1), which, moreover, had the effect of accentuating the progressiveness of the tax. A revision of the brackets and rates (Table 2) had already been formulated in a bill that was tabled in 1986 but not approved owing to the early dissolution of Parliament. A new version, which would have provided around 5 trillion lire of relief as early as 1988, was subsequently submitted in a bill tabled on 22 October 1987. Budget considerations led to the reform being postponed, with only the previously mentioned increases in allowances being approved with reference to both 1987 and 1988 incomes (Decree Law no. 533 of 29.12.1987, which was reissued more than once and finally converted with amendments as Law no. 154 of 13.5.1988).*

Table 2

IRPEF rates

(percentages)

Income bracket	1986-88 (1)	1989 (2)	1989 (3)
up to 6 million lire	12	11	10
from 6 to 11 million lire	22	22	22
from 11 to 12 " "	27	22	22
from 12 to 28 " "	27	26	26
from 28 to 30 " "	34	26	26
from 30 to 50 " "	34	33	33
from 50 to 60 " "	41	33	33
from 60 to 100 " "	41	40	40
from 100 to 150 " "	48	45	40
from 150 to 300 " "	53	50	45
from 300 to 600 " "	58	55	50
above 600 million lire	62	60	50

(1) Decree Law 57/1986. — (2) Bill tabled on 22.10.1987. — (3) Bill tabled on 5.9.1988 and Decree Law of 30.12.1988.

The need to make good the effect of fiscal drag was subsequently recognized in the Finance Law for 1988 (Law no. 67 of 11.3.1988), which provided for changes to be made in the structure of IRPEF if the rate of inflation exceeded 4 per cent.

The Decree Law of 30 December 1988 (which took over the provisions of a bill tabled on 5 September 1988, with some allowances increased) introduced a new rate structure and reduced the number of income brackets from 9 to 7 with corresponding changes in their upper and lower limits. Since the minimum rate has been lowered from 12 to 10 per cent and the maximum rate from 62 to 50 per cent, the range of marginal rates has been narrowed by 10 percentage points (from 50 to 40).

The average gross rates given in Table 3 show that all taxpayers enjoy some relief, but that it is greatest, except for a few cases of incomes close to the limits of the brackets, for taxpayers with incomes above 60 million lire and for those with low incomes.

As had already been decided when the Finance Bill for 1989 was submitted, the allowances for a dependent spouse and for the costs incurred by employees in earning their incomes (Table 1) were increased, for 1989, by 19 and 7 per cent respectively. On the other hand, while the minimum marginal rate was reduced by two percentage points, the supplementary allowance granted to wage and salary earners with incomes of not more than 11 million lire was curtailed. Table 3, which gives the average tax rates of some typical taxpayers, shows that employees benefit more from the relief than the self-employed, and taxpayers with dependents more than those without, especially in the low-to-middle income brackets.

The loss of revenue that is officially expected to result from the application of the new regulations to 1989 incomes amounts to around 7.7 trillion lire, with around 6 trillion being lost in 1989 itself.

Table 3

Average IRPEF rates for 1989 and changes compared with 1988 (1)

TAXABLE INCOME (2)	Gross rate		Wage and salary earner				Self-employed worker			
			Without dependents		With spouse and two children		Without dependents		With spouse and two children	
	Rate	Change	Rate	Change	Rate	Change	Rate	Change	Rate	Change
5	10.00	−2.00	—	—	—	—	7.00	−2.00	—	—
6	10.00	−2.00	—	—	—	—	7.50	−2.00	—	—
7	11.71	−1.71	1.26	−1.54	—	—	11.71	−1.71	1.09	−3.00
8	13.00	−1.50	3.85	−1.35	—	—	13.00	−1.50	3.70	−2.63
9	14.00	−1.33	5.87	−1.20	—	—	14.00	−1.33	5.73	−2.33
10	14.80	−1.20	7.48	−1.08	—	−2.02	14.80	−1.20	7.36	−2.10
11	15.45	−1.09	8.80	−0.98	2.04	−1.80	15.45	−1.09	8.69	−1.91
12	16.00	−1.42	11.40	−1.72	5.20	−2.47	16.00	−1.42	9.80	−2.17
13	16.77	−1.38	12.52	−1.66	6.80	−2.35	16.77	−1.38	11.05	−2.08
14	17.43	−1.36	13.49	−1.61	8.17	−2.26	17.43	−1.36	12.11	−2.00
15	18.00	−1.33	14.32	−1.57	9.36	−2.17	18.00	−1.33	13.04	−1.93
16	18.50	−1.31	15.05	−1.54	10.40	−2.10	18.50	−1.31	13.85	−1.87
17	18.94	−1.29	15.69	−1.51	11.32	−2.04	18.94	−1.29	14.56	−1.82
18	19.33	−1.28	16.27	−1.48	12.13	−1.98	19.33	−1.28	15.20	−1.78
19	19.68	−1.26	16.78	−1.45	12.86	−1.93	19.68	−1.26	15.77	−1.74
20	20.00	−1.25	17.24	−1.43	13.52	−1.88	20.00	−1.25	16.28	−1.70
25	21.20	−1.20	18.99	−1.34	16.02	−1.70	21.20	−1.20	18.22	−1.56
30	22.00	−1.63	20.16	−1.75	17.68	−2.05	22.00	−1.63	19.52	−1.93
35	23.57	−1.54	21.99	−1.65	19.87	−1.90	23.57	−1.54	21.45	−1.80
40	24.75	−1.48	23.37	−1.57	21.51	−1.79	24.75	−1.48	22.89	−1.70
45	25.67	−1.42	24.44	−1.50	22.79	−1.70	25.67	−1.42	24.01	−1.62
50	26.40	−1.38	25.30	−1.45	23.81	−1.63	26.40	−1.38	24.91	−1.56
60	27.50	−2.48	26.58	−2.54	25.34	−2.69	27.50	−2.48	26.26	−2.63
70	29.29	−2.27	28.50	−2.32	27.43	−2.45	29.29	−2.27	28.22	−2.40
80	30.63	−2.11	29.93	−2.16	29.00	−2.27	30.63	−2.11	29.69	−2.22
90	31.67	−1.99	31.05	−2.03	30.23	−2.13	31.67	−1.99	30.84	−2.09
100	32.50	−1.89	31.95	−1.93	31.20	−2.02	32.50	−1.89	31.76	−1.98
120	33.75	−2.91	33.29	−2.94	32.67	−3.01	33.75	−2.91	33.13	−2.98
150	35.00	−3.93	34.63	−3.95	34.14	−4.01	35.00	−3.93	34.50	−3.99
200	37.50	−4.94	37.22	−4.96	36.85	−5.01	37.50	−4.94	37.13	−4.99

(1) As a percentage of taxable income. — (2) Millions of lire.

Corporate tax revenue (IRPEG and ILOR) declined in total by about 9 per cent, with the whole of the reduction occurring in the final payments (−30 per cent). This result was influenced by the small growth in taxable income between 1986 and 1987 (in particular, banks' profits fell), the increase between these two years in the withholding tax on income from government securities (which is counted as a preliminary payment in respect of the following year's tax liability) and the increase in the rate of the preliminary payment companies had made at the end of 1987.

The yield of the withholding tax on income from government securities rose from 1.8 to 4 trillion lire owing to the gradual replacement of exempt securities by taxable ones and the raising of the rate from 6.25 to 12.50 per cent in September 1987. The tax on bank deposit interest decreased slightly (from 11.70 to 11.55 trillion lire) as a result of the drop in such income, the increase in the preliminary payment made in October 1987 and the fact that banks were allowed to deduct their tax credits in respect of the previous year from their tax liabilities. On the other hand, the yield was boosted by the raising of the June preliminary payment, which served to bring forward to 1988 the effects of the increase (from 25 to 30 per cent) in the rate on income from freely available deposits.

Indirect tax revenue rose by nearly 18 per cent. Ministry of Finance data show VAT on imports to have increased by nearly 14 per cent, in line with the rapid growth in the base, while domestic VAT revenue rose by more than 19 per cent, in connection with the growth in consumption, the raising of the standard rate from 18 to 19 per cent in August and the bringing forward of payments with effect from October. Excise tax revenue also increased considerably (by about 14 per cent) as a result of the numerous changes made in the rates applying to oil products and the increases in the taxes on methane, LPG, electricity, spirits and beer. Noteworthy among the other indirect taxes was the almost 90 per cent increase in the revenue from government concession taxes (primarily attributable to the higher levy on companies), together with the large increase in the receipts from vehicle tax and surtax and the more than 30 per cent rise in the yield of the tax on insurance, all of these taxes having been raised at the beginning of the year.

In effective terms, social security contributions rose by 7.7 per cent in total, with pronounced differences, however, between the various categories of contributor. Employees benefited from the 0.30 percentage point reduction in the rate of national health service contributions. On the other hand, employers' contributions rose faster than earnings in the private sector as a result of the steps taken to obtain settlement of INPS and INAIL claims (though this action appears to have been less successful than expected) and the measures that took effect in the middle of the year. These included revised INAIL rates, a 0.45 percentage point increase in employers' contributions in respect of early retirement and a reduction in the relief previously granted in connection with on-the-job training contracts in the Centre and North of Italy. The receipts from self-employed workers were affected on the one hand by the large (nearly 2 point) reduction in their health service contribution rate and on the other by the increases in the contributions payable to INPS and INAIL by farmers and share-croppers.

The money and financial markets

The money and credit aggregates and monetary policy

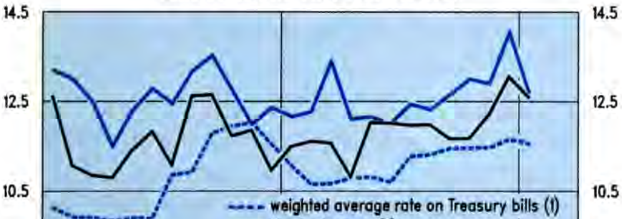
In 1988 economic policy was called upon to curb aggregate demand, an even more rapid expansion of which would have had adverse repercussions on the external accounts and on the level of prices.

Since the budget deficit substantially overshot the target figures, fiscal policy's contribution to the restriction of demand, essential in such an economic situation, was quite limited. Monetary policy thus had to make use of the scope for restraint offered by combined management of interest rates and the exchange rate.

The rates on the Bank of Italy's open market operations, which were conducted with great frequency from May onwards, and the yields on new issues of government securities rose in the second half by more than a full percentage point from already high levels (Figure 11). In August the discount rate was raised again, from 12 to 12.5 per cent. Starting in June the effective exchange rate of the lira began to rise gradually.

Figure 11

Short-term interest rates



(1) Weighted average of after-tax tender yields. — (2) Weighted monthly average of effective rates. — (3) Average of marginal rates on purchases and sales.

As regards the final objectives of economic policy, it proved possible last year to limit the deterioration of the external current account and resist the resurgence of inflation, while at the same time reconciling these accomplishments with the fastest economic growth of recent years.

Control by the monetary authorities was hindered during the early part of the year by the uncertainty that frequently prevailed in the market for government securities and by substantial disinvestment in such securities by banks and investment funds. In recent months, as the dimensions of the budget deficit have become more clearly manifest, it has been necessary to counter the expansionary effect of inflows of foreign currency, which accelerated following the exchange liberalization in October.

The interaction of these tendencies affected monetary and credit aggregates to varying degrees. The expansion of M2 for the year was near the mid-point of the target range set under the planning framework. Action to control the growth of the money supply was reflected in the reduction in the rate of growth of the monetary base, and of its domestic component in particular.

The target for credit to the non-state sector, on the contrary, was overshot. This stemmed in part from a trend of domestic productive activity that exceeded even the strong growth forecast made only a few months ago. It also reflected the problems encountered in limiting the expansion of credit while banks were shifting the composition of their assets away from securities and into loans. Finally, in the absence of constraints on external borrowing the strengthening of the monetary authorities' restrictive action in the last few months of the year led not so much to a slowdown in total credit as to a shift in its composition towards the foreign currency component and was reflected in the appreciation of the lira.

The expansion of foreign currency lending by banks continued in January. To strengthen control over the expansion of credit, the monetary authorities imposed a 25 per cent compulsory reserve on changes in the net external position of banks with effect from 1 March; this reserve ratio had been reduced to zero in September 1987.

After showing signs of slowing down during the summer, the expansion of domestic credit to the non-state sector quickened from an annualized rate of 12.7 per cent in the third quarter to one of 17 per cent in the fourth. During the year as a whole the growth was 15.7 per cent, compared with a target range of 6 to 10 per cent (Table 14) and actual growth of 10.3 per cent in 1987. The average stock of credit in the two years shows no such acceleration, however, having increased by 12.1 per cent in 1987 and by 12.7 per cent in 1988.

Table 14

Total domestic credit

(percentage changes)

	1987	1988 (1)	
	Year	Year	Target range
Bank lending (2)	8.3	18.2	
Special credit institution lending	13.3	14.7	
Net bond issues	12.3	−1.0	
Non-state sector financing	**10.3**	**15.7**	**6-10**
State sector domestic borrowing requirement (3)	14.9	14.4	
Total domestic credit	**13.1**	**14.9**	

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

The strength of the demand for credit registered throughout the year is largely explained by the growth in economic activity, and especially the expansion of investment, which grew faster than in 1987. Since the contribution of such alternative sources of financing as the equity markets diminished, firms turned abroad and above all to domestic credit intermediaries to meet their requirements.

The composition of domestic financing of the non-state sector changed significantly. Net bond issues, which had amounted to 3.6 trillion lire in 1987, were negligible last year, while the rise in lending by banks and special credit institutions accounted for 68 per cent and 32.4 per cent, respectively, of the total flow, compared with 48.5 and 43.5 per cent in 1987.

The growth of banks' loan and securities portfolio came to 6.3 per cent during the year, in line with the expansion of deposits. Bank credit increased by 18.1 per cent, with the banks disinvesting substantially in securities in order to meet the loan demand. Over the year as a whole banks' securities portfolios decreased by some 20 trillion lire, the equivalent of about half the increase in lira lending. The expansion of lending was also fueled by banks' slowness to raise lending rates, owing in part to the reduced credit risk associated with strong cyclical expansion. In the last quarter the additional expansionary impetus from the increase in foreign currency lending was especially strong (5.8 trillion lire); with the exchange liberalization that came into effect in October, such credits no longer have to be connected with an underlying import or export transaction, and, until the restoration of the compulsory reserve requirement on foreign currency lending, their cost was independent of the domestic monetary situation. Foreign currency lending by the banks thus increased by 24.8 per cent during the year as a whole, as against a growth of 17.2 per cent in lira lending.

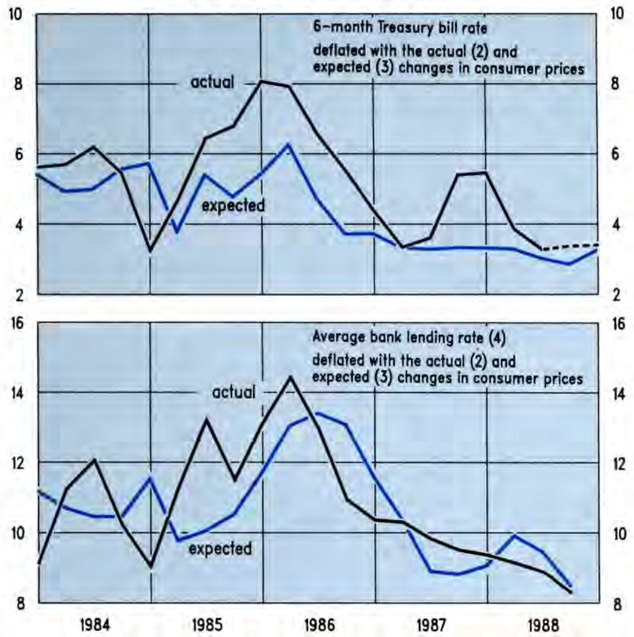
Special credit too continued to expand rapidly, with the growth of real estate credit again being particularly robust.

The increase in total domestic credit, which the planning framework had set at about 11 per cent, reflected the faster than expected expansion of both the state sector borrowing requirement and credit to the non-state sector; the growth over the year was 14.9 per cent. The foreign contribution to total credit expansion, while not yet precisely calculable, was appreciably larger than in recent years.

The money supply (M2) rose by 7.8 per cent during 1988, as against 8.3 per cent in 1987 (Table 15). Starting in the third quarter, this aggregate accelerated slightly after very slow growth in the first half. The speedup was largely attributable to demand factors such as the steady expansion of economic activity and a strengthening of investors' liquidity preference. The banks continued to accept disintermediation, keeping the after-tax yield differential between government securities and bank deposits at nearly five percentage points, about one point wider than that prevailing until mid-1987. Certificates of deposit, thanks to higher yields and a lower tax rate, increased further in importance: net of CDs, the money supply (M2A) expanded by 4.4 per cent, as against 6.8 per cent in 1987.

Figure 12

Real interest rates (1)



(1) Estimated values of interest rates net of inflation. Data at start of each quarter. Dotted line indicates partly estimated data. — (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 regarding respectively consumer and wholesale prices. — (4) The nominal rate on lira loans is provided by the Bank of Italy Central Credit Register.

The moderate growth of these aggregates stands in contrast to the steady acceleration of the broader M3 aggregate, which includes all liquid assets, including Treasury bills. In the twelve months to October, as a result of market participants' increasing preference for short-term government securities, M3 expanded by 13.6 per cent as against 11.5 per cent in 1987.

Fueled by the large budget deficit and the expansion of credit, the domestic financial assets of the non-state sector grew nearly twice as fast as M2. In the first ten months of 1988 they increased at a 14.6 per cent annual pace, slightly faster than in the year-earlier period. Accordingly, achieving the money supply target required substantial sales of securities to households and firms (Table 16).

With regard to government securities in particular, households and firms not only absorbed all the issues needed to finance the state sector borrowing requirement but also took up the net sales by banks and investment funds.

Table 15

Monetary variables

(percentage changes)

	1987	1988 (1)	
	Year	Year	Target range
Bank reserves (2)	9.2	7.0	
Monetary base (2)	9.2	7.6	
Bank deposits	7.2	7.1	
Money supply net of CDs (M2A)	6.8	4.4	
Money supply (M2)	8.3	7.8	6-9

(1) Provisional. — (2) Corrected for the change in the compulsory reserve ratio.

In order to achieve this result, at a time of recurrent uncertainty and sudden changes in expectations in the financial markets, it was necessary to make frequent changes in the composition of the securities on offer.

Table 16

Financial assets (1)

(percentage composition)

	Stocks		Flows	
	Dec. 1987	Oct. 1988	Jan.-Oct. 1987	Jan.-Oct. 1988
Money (M2)	52.8	50.3	33.8	31.4
of which:				
bank deposits	42.2	39.9	22.5	22.0
Treasury bills and acceptances	14.2	14.8	14.7	20.1
Special credit institution CDs	2.1	2.7	....	7.9
Medium-term securities	25.9	28.2	49.6	48.3
Investment fund units	4.8	3.7	2.1	−7.7
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. Inclusion of minor items may cause discrepancies in the totals.

Thanks to large-scale market subscriptions of securities, monetary financing of the Treasury was held to about 3.0 trillion lire, less than one third of the figure registered in 1987 (Table 17). It thus proved possible to compensate for the external component, which created 10.3 trillion lire of monetary base (6.8 trillion in 1987), about half of it in the fourth quarter. The expansion of the monetary base in the course of the year was thus limited to 12.9 trillion lire, or 7.6 per cent, as against 13.9 trillion, or 9.2 per cent, in 1987.

Table 17

Monetary base

(changes in billions of lire)

	1987	1988 (1)	
	Year	Oct.-Dec.	Year
Sources			
Foreign sector	6,756	4,986	10,296
Treasury	9,240	−745	3,020
Borrowing requirement	*114,212*	*30,054*	*124,651*
(excluding settlements of past debts)	*(113,659)*	*(29,749)*	*(123,855)*
Outstanding securities excluding BI	*−84,656*	*−23,327*	*−103,716*
Other financing (2)	*−20,316*	*−7,472*	*−17,915*
Refinancing of banks	−730	−63	−222
Other sectors	−1,321	−2,295	−160
Total	**13,945**	**6,473**	**12,934**
Uses			
Currency in circulation	4,386	5,361	4,617
Bank reserves	9,559	1,112	8,317
Compulsory reserves	*8,740*	*2,300*	*9,443*
Deposits against loans in excess of ceiling	*657*	*0*	*−657*
Liquidity	*162*	*−1,188*	*−469*

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

In September the Government's commitment to action on the public finances, contained in the Finance Bill for 1989, produced an appreciable improvement in expectations. Together with a slowdown in net securities sales by banks and investment funds, partly owing to seasonal factors, this made the sale of new issues less difficult than earlier in the year. The rise in interest rates decided in September temporarily strengthened the demand for Treasury bonds. Swollen by attempts to counter the effects of a scaling down of applications, the demand reached abnormally high levels in October and even more so in early November, despite a slight diminution in yields. The volume actually sold enabled the Treasury to cover a large part of its borrowing requirement, limiting resort to bills. The demand for credit certificates remained insufficient to offset redemptions. Liquidity conditions, however, remained generally easy, with abundant inflows of capital as a result of the positive interest rate differential and expectations of exchange rate stability. This forced the Bank of Italy to intervene with temporary securities sales in the open market at gradually rising interest rates (see insert).

The mid-November issue of Treasury bonds switched to the uniform price auction, and strong demand pushed the final tender yield below the floor-price yield.

In December, as the implementation of the Finance Law encountered difficulties and signs of faster price inflation emerged, investor confidence weakened. The Treasury's first issue of retractable credit certificates, at the start of the month, was not well received by the public, and demand for Treasury bonds was weak.

Faster credit growth in the last few months of the year prompted the Bank of Italy to tighten further the pressure on bank reserves. This was facilitated in December by the seasonal reduction in the public borrowing requirement and the parallel seasonal increase in the demand for cash. For the first time since March the banks found themselves obliged to resort massively to central bank financing. The demand for liquidity was met partly by fixed-term advances at rapidly more onerous rates; the overnight rate rose to peaks of nearly 15 per cent.

With this tightening already under way the persistent inflows of foreign exchange, in large measure intermediated by the banking system and reflected in a gradual appreciation of the lira, led to the decision not to follow the rise in discount rates announced on 16 December by the other leading European countries or the further rise made a month later.

Investor expectations continued to deteriorate as the new year began. Demand for Treasury bonds since the turn of the year has been limited, though there was renewed interest in credit certificates, which were accordingly reissued in mid-January. In February the demand for credit certificates also weakened.

In January the Minister of the Treasury summarized the guidelines for debt management in 1989 and reaffirmed the intention of lengthening the average maturity of the debt, favouring exchange liberalization, increasing the freedom of action of monetary policy and improving the working of the markets.

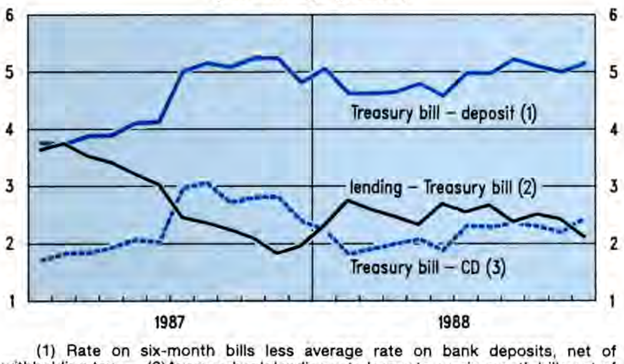
The demand for credit and the activity of credit intermediaries

The behaviour of the banks in the last few months of the year slightly accentuated tendencies that had emerged in mid-1987 and continued in 1988. Both lending and deposit rates, except those on CDs, were kept low compared with the main money market rates (Figure 13). This strategy helps explain the expansion of bank loans, the relatively small growth of total deposits and the increased share of CDs in deposits. This restructuring of liabilities and assets was made possible both by banks' willingness to accept even more disintermediation and a sizable reduction in their securities portfolios.

Figure 13

Interest rate differentials

(percentage points)



(1) Rate on six-month bills less average rate on bank deposits, net of withholding tax. — (2)Average bank lending rate less rate on six-month bills net of withholding tax. — (3) Rate on six-month bills less rate on six-month CDs, net of withholding tax.

The sectoral distribution of the growth in bank credit confirms the correlation with the pattern of economic activity. Household loans, including consumer credit, expanded by 22.4 per cent in the twelve months to November. Over the same period lending to non-financial firms, which is more directly linked to investment, rose by 18.4 per cent.

Loans to financial companies and holding companies, i.e. those most directly affected by the previous lending ceiling, expanded at a moderate pace in the early part of the year. In recent months credit to this sector has picked up notably. However, this does not appear to reflect faster growth in credit demand for purposes of financial arbitrage. In July and August, after six months of relative stability, companies' financial assets grew at a faster pace, but slowed again in subsequent months.

Within the banking system, the growth of lending differed according to institutional category. The banks of national interest, the cooperative banks and the leading savings banks posted annual growth rates three or more percentage points higher than the average.

Total deposits expanded by 6.6 per cent in the course of the year, but the changes according to type of deposit were extremely varied. Certificates of deposit increased by 74.5 per cent, mainly at the expense of savings accounts; these contracted by 4.5 per cent between November 1987 and November 1988, and their share of total deposits declined from 37 to 34 per cent. Current accounts, more commonly used to carry out transactions, expanded by 8 per cent, or faster than total deposits and at about the same pace as nominal GDP. What appears to be taking place, then, is the progressive polarization of bank deposits, with true financial savings being increasingly channeled into CDs and funds used as means of payment going into current accounts.

The large expansion of CDs was unevenly distributed by type of institution. Those issued by banks and by the smaller savings banks more than doubled. In terms of maturity, especially fast growth was recorded by CDs at longer than eighteen months, which by the end of November accounted for 19 per cent of all bank CDs.

The data for the first three quarters indicate a clear improvement in banks' profit and loss accounts. Benefiting from the shift of assets

Bank of Italy intervention in the money market

The closing months of 1988 were marked by large-scale inflows of foreign exchange, prompted by interest rate differentials and stable expectations regarding the lira's exchange rate. The resultant creation of monetary base accounted for 40 per cent of overall monetary base growth in November and December. On top of the expansionary impulses coming from abroad came that deriving from the Treasury borrowing requirement, which was especially large in November. The effects on liquidity were partially offset by massive subscriptions of government securities. The Bank of Italy intervened on the open market, mainly with repurchase agreements, to absorb excess liquidity. As the year drew to a close the control of liquidity was tightened owing to the strong expansion of the monetary and credit aggregates. The banking system had extensive recourse to fixed-term advances at penalty rates, and short-term interest rates rose (see figure).

In November the Treasury borrowing requirement, which was more than 3 trillion lire higher than in the corresponding month of 1987, exerted a strongly expansionary effect on liquidity. In September market participants had already shown a willingness to subscribe to fixed-rate medium-term securities, and this tendency was encouraged in order to lengthen the average maturity of the public debt. Gross sales of Treasury bonds amounted in the month to 11.5 trillion lire, of which 3 trillion had a maturity of three years and 8.5 trillion one of five years. The issue at the start of the month filled only 6 per cent of total market demand, which was abnormally swollen by expectations of scaled down allocations. For the five-year bond issue at mid-month the technique of a uniform price auction was introduced, which not only eliminated speculative demand but also lowered yields. Demand for floating rate securities remained slack: the banking system's bids for Treasury credit certificates at the start of the month took up barely half the issue, or 1.5 trillion lire.

In the early part of the month the central bank intervened on the open market with temporary sales of securities in the amount of 5.9 trillion lire in order to counter the expansionary effects arising from Treasury disbursements. However, this did not prevent banks' excess reserves from increasing, on average for the first ten days, to 5.7 trillion lire (see figure). Subsequently, once the expansionary effect of the borrowing requirement had receded, the monetary base was supplied mainly through the external channel and the expiry of a large volume of outstanding repurchase agreements. Bank liquidity contracted in the final ten days of the month to 5.2 trillion lire. The overnight rate averaged 11.2 per cent over the month, moving in its usual inverse relation to banks' excess reserves.

In December the monetary authorities tightened their policies still more in response to a further increase in the rate of growth of the financial aggregates. At a time of year when the banking system usually tends to be in a temporary debtor position, the relatively limited offer of temporary financing by the central bank resulted in a rapid increase in fixed-term advances that became progressively more costly as penalty rates came into effect. The overnight rate reached 15 per cent during the middle ten days of the month, and at the same time bank liquidity contracted to less than 4 trillion lire. At the end of the year monetary conditions eased, owing in part to an increasing influx of foreign exchange. The overnight rate fell to 10.6 per cent in the last ten days.

At the first auction of December the rate on three-month Treasury bills partially reflected the restrictive stance of monetary policy. Compared with the previous auction, the net tender yield rose by about 25

towards loans, whose rates by comparison are higher, net interest income increased appreciably as a ratio to total resources. A slight decline in non-interest income was offset by a modest reduction in operating expenses.

Lending by the special credit institutions grew by 14.8 per cent in 1988, as against 13.6 per cent in 1987. For the second year running, real estate credit was the fastest growing component. Reflecting the sustained buoyancy of the real estate market, such lending again expanded by nearly 20 per cent.

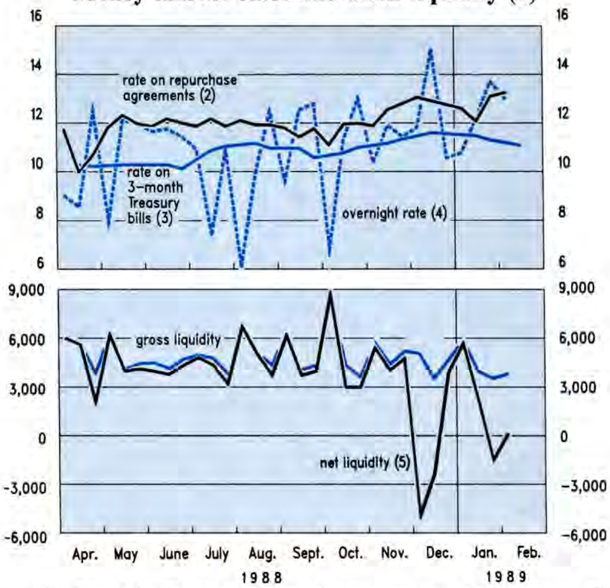
Though growing faster than in 1987, lending by the industrial credit institutions, which is more directly connected with the financing of investment, slowed down in the last quarter. The twelve-month growth rate slackened from 17.5 per cent in September to 14.3 per cent in December. The reduction of the tax on medium and long-term loans in lieu of registration tax and *basis points. In the medium-term segment, the public's preference for fixed-rate securities evaporated, owing in part to expectations of higher domestic interest rates in line with the increases in official rates in the leading European countries. In these circumstances, the first issue of retractable Treasury credit certificates was not a success. Subscriptions totaled just over 500 billion lire. Gross sales of the three-year bonds issued in mid-December amounted to about the same figure.*

Tight control of liquidity continued in January. The effects of very large Treasury outlays early in the month in connection chiefly with coupons and interest on the debt were countered with substantial temporary sales of securities. These amounted to 18.25 trillion lire, at rates averaging 12 per cent and expiring mostly at the end of the month. The greater resort to such operations, compared to the same period of 1988, resulted from the need to control the monetary and credit aggregates, the larger borrowing requirement, the increased volume of foreign exchange inflows and an unusually heavy schedule of redemptions. In the middle ten days of the month the banks' excess reserves contracted on average to 4.5 trillion lire and then to 3.7 trillion in the last ten days. During this period the overnight rate rose to nearly 14 per cent, inducing recourse to fixed-term advances towards the end of the month. At the same time the marginal rates on repurchase agreements were raised to above 13 per cent.

On the government securities market, participants' preference for short-term paper became stronger. At the Treasury bill auction at the end of January, demand exceeded supply for all three maturities, and tender yields accordingly declined.

In February the demand for longer-term government securities remained weak. Scarcely a third of the Treasury bond issue of 4.0 trillion lire was taken up. The weakness extended also to the demand for credit certificates with only 2.6 trillion of the 5.0 trillion on offer being subscribed. In the short-term area, however, demand continued to outstrip supply. Bids for all maturities of Treasury bills at the mid-month issue amounted to 13 trillion lire, whereas total issues came to only 10 trillion. The excess demand was most pronounced for three-month bills, whose net tender yield declined by 20 basis points compared to the previous auction.

Money market rates and bank liquidity (1)



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

stamp duty encouraged a lengthening of maturities. Short-term credit expanded by 13.1 per cent, as against 17 per cent in 1987.

On the fund-raising side, the average maturity of borrowings shortened. Special credit institution bond issues declined from 11.5 to 7.3 trillion lire, the contraction being due to the industrial credit institutions. Issues of certificates of deposit soared from 2.6 trillion lire in 1987 to nearly 13 trillion.

The special credit institutions also contributed to the inflow of foreign capital. While the deposits of non-residents expanded by 5.0 trillion lire, as in 1987, the growth of lending abroad shrank to 300 billion lire from more than 1.1 trillion in 1987.

The financial market

In a year in which new bond issues by companies and special credit institutions contracted, the state sector strengthened its position as the leading issuer of securities. Gross government issues amounted to 530 trillion lire, or five times net issues (Table 18), which gives a good measure of the problems involved in financing the deficit and renewing the growing volume of maturing paper.

Table 18

Government securities

(billions of lire)

	Bills (1)	ECU bills	Credit certifi-cates	Bonds	ECU credit certifi-cates (2)	Total (3)
			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	2,311	55,480	19,020	590	404,116
1988 (4) .	409,411	7,289	27,350	75,406	9,861	530,007
			Net issues			
1985	13,181	—	78,567	3,973	3,367	106,102
1986	9,697	—	53,534	35,025	2,079	97,153
1987	25,171	2,311	35,267	13,538	590	83,550
1988 (4) .	36,276	5,738	−7,848	59,804	9,861	102,766

(1) Net issues of bills are defined as gross issues less redemptions. — (2) Net of those that may be sold to non-residents. — (3) The 1985 figures include the securities issued in settlement of debts amounting in net terms to 9,923 billion lire. — (4) Provisional.

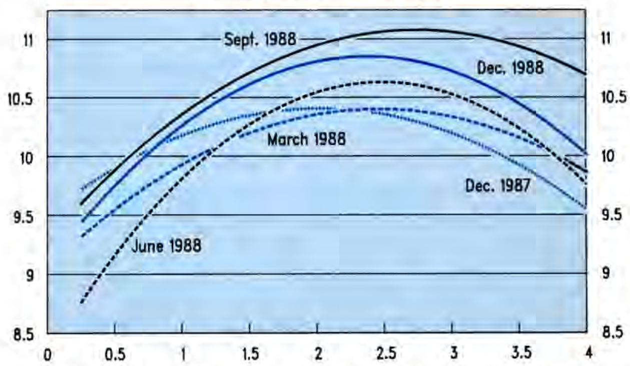
The shift in investors' preferences in the course of the year is evident in the composition of net government securities issues, which totaled nearly 103 trillion lire. The bulk consisted of Treasury bonds, net subscriptions of which amounted to around 60 trillion lire, with nearly a third coming in the fourth quarter. Redemptions of credit certificates outpaced new issues by nearly 8 trillion lire, while issues of Treasury bills (36 trillion lire) and securities denominated in ECUs (16 trillion) were substantial. At the end of the year the average maturity on the public debt was about three years, virtually unchanged since September but six months shorter than in December 1987.

Reflecting the change in investors' expectations, the slope of the time/yield curve steepened throughout the first part of the year (Figure 14). There was a slight flattening in the fourth quarter. The prevalence of greater market uncertainty around the turn of the new year is indicated by a widening of the maximum bid-asked spread in trading on the screen-based system, which was expanded in November with the inclusion of new Treasury securities: four credit certificates, four bonds and two ECU-based credit certificates. The average spread remained constant at less than 0.2 per cent, but the maximum rose from about 0.4 per cent in the May-November period to about 0.9 per cent in December and January.

As noted, households and firms expanded their securities portfolios. Foreign investors also made sizable purchases of government securities, exceeding 5.0 trillion lire in the first half of the year, mainly in ECU-denominated paper. During the year as a whole special credit institutions purchased 1.7 trillion lire of securities, offsetting only a small part of the net dis-investment by the banking system.

Figure 14

Time/yield curves (1)



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

Investment funds also changed the composition of their assets, selling mainly government securities and increasing their investment in foreign currency assets, despite a reduction of 13 trillion lire in their net resources. In recent months this drain on funds has been mitigated by a progressive slowing down of redemptions.

The investment fund scene is continually shifting. In apparent contrast with the downward trend in fund-raising, there was a remarkable number of new entries. Forty-three new funds were launched in 1988, bringing the total to 115 at the end of the year. The pattern of net fund-raising varied sharply depending on the initial year of activity. The funds that commenced operations in 1988 achieved net fund-raising of 1.4 trillion lire, while those launched in 1987 were virtually stationary, as a group. Funds that were begun still earlier suffered net disinvestment.

Table 19

Portfolios of Italian investment funds

(billions of lire)

	Italian securities			Foreign securities		Total
	Govern-ment	Bonds	Shares	Total	of which: shares	
1986 — Dec. . . .	35,841	5,142	17,885	3,734	2,305	62,602
1987 — Dec. . . .	31,569	5,254	13,561	5,497	2,608	55,881
1988 — Jan.	30,773	5,204	12,670	5,435	2,631	54,082
Feb. . . .	28,445	5,112	13,139	5,441	2,720	52,137
Mar. . . .	27,930	5,046	13,440	6,099	2,874	52,515
Apr. . . .	26,922	5,182	12,919	6,933	3,031	51,956
May. . . .	25,466	5,104	11,820	7,173	2,979	49,563
June . . .	24,757	5,044	12,756	7,286	3,178	49,843
July	24,304	4,967	13,126	7,501	3,349	49,898
Aug. . . .	23,854	5,089	12,689	7,579	3,282	49,211
Sept. . . .	23,352	5,068	13,180	7,787	3,283	49,387
Oct. . . .	23,241	4,829	13,649	7,741	3,283	49,460
Nov. . . .	23,244	4,911	13,684	7,772	3,236	49,611
Dec. . . .	22,289	4,796	13,958	7,802	3,485	48,845

One explanation for this may lie in a change in the type of services investors desire from these intermediaries. The new demand may be more easily satisfied by establishing new funds than by modifying existing ones. In particular, the newly instituted funds as a group are more strongly oriented toward shares and foreign securities, for which greater specialization and experience are required. Another reason could be the incidence of commissions, which as the sector becomes more competitive appear to be lower for the newer funds. In response, some of the established funds have also lowered their charges.

The recovery in share prices, after the low point in February, was consolidated in the latter part of the year, despite net sales by investment funds totaling 3 trillion lire. At the end of December the Milan Stock Exchange index was 21.3 per cent higher than a year earlier, and not much below the level registered during the summer of 1987 (Figure 15). The market capitalization of listed shares rose from 140.7 trillion to 175.5 trillion lire.

Figure 15

Securities market indices of capitalization

(31 December 1984 = 100; end-of-week figures)

Investors' renewed interest in shares was reflected in the latter part of the year in an increase in net issues, with several leading financial groups playing a role. Nonetheless, total fund-raising via the equity market was less than in years past: 7.0 trillion lire as against 10.4 trillion in 1987 and 18.9 trillion in 1986.

The average price-earnings ratio rose from 22 to 1 at the end of August to over 24 to 1 by the end of the year. In the new year, as discussion resumed over the possible taxation of capital gains, investor uncertainty heightened and a decline in share prices lowered the ratio to 23 to 1 in early February.

Short-term prospects

The international economy

The latest forecasts by international organizations point to continued strong growth for the industrial economies this year. Failing a closer coordination of economic policies, the adjustment of the current payments imbalances among the three leading countries will come to a halt. Inflation rates are expected to be higher (Table 20).

The growth forecasts reported in the October 1988 *Bulletin* have been revised upwards. Specifically, the persistence of the factors that were fueling growth last year has led the OECD and the IMF to predict GNP growth of 3.3 per cent in the industrial countries, half a percentage point higher than the forecast made last autumn, though below the 4 per cent growth achieved in 1988.

In the United States, Japan and Germany the growth rate is expected to be about 1 percentage point lower than in 1988. While in Japan it would remain high (4.5 per cent), in the US and Germany it would be below the average for the industrial countries. The expected slowdown in growth is seen as reflecting a slower expansion of domestic demand, especially private investment, in view of last year's buoyant expansion and the relatively high capital/output ratios that now exist.

However, economic indicators show that activity has remained at a very high level in the early part of the year and that prices are accelerating. The slowdown in output in 1989 could therefore be less marked than expected. In this case, demand-side inflationary pressures would be accentuated.

Table 20

Forecasts of the main international macroeconomic variables

(% changes on previous year)

	1988	1989		1988	1989
GDP (1)			**Current balances** (2)		
Industrial countries	4.0	3.3	Industrial countries	−61	−50
of which:			*of which:*		
United States	3.8	3.0	United States	−132	−116
Japan	5.8	4.5	Japan	80	77
EC	3.5	3.0	EC	14	13
Germany	3.4	2.5	Germany	45	51
LDCs	3.6	4.0	LDCs	−17.6	−26.1
Heavily-indebted LDCs	1.5	1.4	Heavily-indebted LDCs	−10.1	−12.0
Consumer price deflator			**Unemployment rate** (3)		
Industrial countries	3.8	4.0	Industrial countries	7.3	7.3
of which:			*of which:*		
United States	4.3	4.5	United States	5.5	5.5
Japan	—	1.0	Japan	2.5	2.5
EC	3.3	3.5	EC	10.5	10.3
Germany	1.3	2.3	Germany	7.8	7.8
World trade (1)	**9.0**	**7.5**			
Exports (1)			**Imports** (1)		
Industrial countries	9.5	8.0	Industrial countries	8.8	7.3
LDCs	7.7	6.8	LDCs	8.0	8.0
Heavily-indebted LDCs	7.4	3.5	Heavily-indebted LDCs	4.4	7.2

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

Assuming that exchange rates remain at their current levels, present trends in domestic demand would lead to a negligible change in the current account imbalances of the three principal economies. The US deficit would narrow moderately, the Japanese surplus would remain virtually unchanged and the German one would increase. The real effective exchange rates of the yen and the Deutschemark are now about the same as their average levels for the second half of 1986, while that of the dollar appreciated in the course of 1988. The expected growth of domestic demand in the US and in Japan seems to be consistent with the goal of reducing the imbalances, whereas the German current account surplus would be larger should domestic demand increase by only about 2 per cent.

The forecast increase in Germany's current account surplus should be roughly equal to the expected worsening of the external accounts of the other EEC countries. In particular, the deficits of the UK, Spain and Italy are expected to increase by between 2 and 3 billion dollars. This would widen the divergence that has existed for the last four years between Germany's surplus and the deficits of the rest of the Community.

Fiscal policies appear not to be contributing sufficiently to balance-of-payments adjustment. In the US the federal deficit is forecast to decrease by a modest $10 billion in relation to fiscal 1988. In Japan the fiscal policy stance, adjusted for the cyclical increase in tax revenues, will be only slightly expansionary. In Germany, by contrast, the deficit is actually expected to contract, in that the decline in direct taxation under the tax reform programme for 1986-1990 will be offset by decreased expenditure and higher indirect taxes.

According to the OECD's end-year forecast, productivity gains and restrictive monetary policies should hold price inflation to 4 per cent, after the 3.8 per cent recorded in 1988. However, there remains a risk of a further acceleration in price increases, owing to stronger-than-expected demand, which could, in turn, intensify the pressure on commodity prices that emerged last year. The threat to price stability appears to be more pronounced in countries such as the US, the UK and Canada, where capacity utilization is high and labour market conditions are tighter.

To check inflation, economic policy must control the expansion of aggregate demand, keeping it in line with the growth of potential output. Since the middle of last year the central banks of the industrial countries have moved to curb price increases by raising interest rates. Especially in Europe, the tightening of monetary conditions has been carried out in concerted fashion since the start of the year, confirming that the control of inflation remains a shared priority. More incisive fiscal policy action would prevent a conflict from arising between domestic monetary and exchange rate objectives. It would help to reduce the pressure on interest rates, which would benefit not only industrial countries seeking to correct the imbalances in their public finances over the medium term but also the more heavily indebted developing countries.

The developing countries, benefiting from the continued expansion of the industrial countries, are expected to achieve higher, though differentiated, growth rates. Exporters of manufactures, principally the newly industrializing economies of Asia, will again expand rapidly, while the growth of the heavily indebted and of the sub-Saharan LDCs will not exceed last year's low rates. Substantially increased imports, especially by the NIEs, are also likely to reduce current account surpluses.

The most heavily indebted countries benefited in 1988 from higher raw materials prices but had to face up to an acceleration of inflation and, above all, an increase in debt costs. Their debt situations and economic prospects are not encouraging. The need for joint efforts by commercial banks, debtor countries, international institutions and creditor countries has been reconfirmed. Above all, there is recognition of the need for a substantial reduction in the current outstanding debt, on a voluntary basis and using a variety of market instruments, in order to staunch the outflow of financial resources, facilitate growth and impart continuity to domestic adjustment programmes.

The Italian economy

Like those of the other industrial countries, the Italian economy registered positive results in

1988 in terms of output and employment. Only towards the close of the year did prices begin to accelerate, after the slowdown in inflation had come to a halt during the third quarter. Fiscal policy did not take advantage of the opportunity offered by the good economic performance to initiate effective action on the structural imbalances of the public finances. Since mid-year, therefore, monetary and exchange rate policy have been directed to curbing the pressure of demand in the interests of price stability (Table 21).

In the fourth quarter industrial output rose by 2.7 per cent over the preceding one, and estimates based on electricity consumption in January and the first half of February indicate that the high level of output has been maintained. Export orders have been increasing again after the summer pause. Firms' expectations remain positive, with orders for both consumer and capital goods still running at a high level.

The figures for October indicate that employment continued to rise in the latter part of the year, not only in services but also in industry. The rate of capacity utilization in industry is high, and increases in output are once again leading to capital-widening investment and increased employment. Households' demand for consumer goods has continued to expand.

The non-energy trade balance continued to worsen owing to domestic demand conditions and, in some sectors, to reduced competitiveness caused by the depreciation of the dollar and competition from the newly industrializing economies. Some imports nonetheless contributed to an increase in the economy's capital stock. Indeed, the reduction in the surplus on engineering products stems chiefly from imports of equipment in response to the rapid expansion of investment.

In November, the twelve-month rate of increase in the cost-of-living index rose to over 5 per cent; by the end of the year it had moved up to 5.5 per cent, and in February it exceeded 6 per cent. The acceleration reflects firms' rising unit variable costs — primarily higher raw material costs, which were passed on to prices with a lag of several months — and faster rises in the prices of private sector services. About half of the increase

Table 21

Financial flows

	Gross domestic product		State sector borrowing requirement (1)		Credit to the non-state sector (B)		Total domestic credit (A) + (B)			Non-state-sector financial assets (2)				Money (M2)		
					flows		flows		ratio to GDP (3)	flows		ratio to GDP		flows		ratio to GDP (4)
	billions of lire	% change	total	domestic (A)	billions of lire	%	billions of lire	%		billions of lire	%	(3)	(4)	billions of lire	%	
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	34,016	12.7	79.3
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	30,932	10.0	72.8
1982 (5) ...	545,124	16.5	72,799	69,133	31,604	13.4	100,737	20.9	18.5	89,821	19.9	16.5	99.5	61,587	18.1	73.8
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	49,432	12.3	71.5
1984 (6) ...	727,798	15.2	95,695	91,708	48,368	15.6	140,076	19.7	19.2	128,657	19.6	17.7	109,0	54,867	12.1	69.6
1985	815,630	12.1	110,036	107,281	46,447	12.9	153,728	18.1	18.8	135,379	17.2	16.6	113.5	55,805	11.0	69.0
1986	902,238	10.6	109,557	106,714	45,480	11.4	152,194	15.1	16.9	151,741	16.5	16.8	120,5	52,720	9.4	68.2
1987	982,596	8.9	113,962	105,834	45.654	10.3	151,488	13.1	15.4	153,007	14.2	15.6	125.9	51,962	8.3	67.8
1988 (7) ...	1,045,000	7.5	103,500	97,000	(8) 39,000	6-10	136,000	10.4	13.0	138,000	11.2	13.2	131.5	(8) 50,000	6-9	68.5
1988 (9) ...	1,074,900	9.4	124,232	118,065	76,777	15.7	194,842	14.9	18.1	178,935	14.5	16.6	131.7	51,900	7.8	66.8

(1) From 1985 onwards, the total borrowing requirements do not include settlements of past debts in securities or cash; the latter are included, however, in the domestic borrowing requirement. — (2) Domestic, net of shares. — (3) Based on period flows. — (4) Based on end-of-period stocks. — (5) Net of the effects of the non-interest-bearing deposit on external payments. — (6) Lending to the non-state sector has been corrected for the distortions in banking statistics connected with the elimination of the ceiling on bank lending. — (7) Planning scenario. — (8) Equivalent to the central value of the target range. — (9) Provisional.

in the inflation rate was due to the raising of VAT rates and the duty on tobacco products. The "sterilization" of half a percentage point of the increase in the trade union cost-of-living index following the January agreement between the Government and the trade unions will prevent the VAT increases from spreading to other prices via the *scala mobile.*

The expansion of demand has not been curbed by budget policy. The force of the underlying expenditure trends annulled both the effects of the built-in stabilizers and those of revenue-boosting measures. The budget outturn for 1988 registered a deficit of 124 trillion lire, 20 trillion more than the limit fixed in November 1987 and 6 trillion more than that projected in last September's Government Forecasting and Planning Report for 1989.

Under conditions of increasing capital mobility, the monetary policy measures adopted to curb demand and contain inflationary pressures were necessarily more complex. Nominal interest rates rose, and Italy's real interest rates remained among the highest in the industrial world. The large inflow of capital points to the absence of expectations of exchange rate variations.

Current trends involve the risk of the high level of demand persisting. Indicators of economic conditions suggest that output will continue to grow in the first few months of the year at about the same pace as in 1988. Stocks of finished goods appear to be still below their normal levels. The working of the endogenous forces of the economy and the inadequate restraint exercised by the budget entail the risk of overheating. Italy must keep in line with the cyclical trend in the world economy to prevent a deterioration of the external accounts, in view among other things of the possibility of a less favourable oil market.

Last October's *Bulletin* suggested that it would be difficult to limit inflation to 4 per cent in 1989, in view of the accelerating rise in costs and the effects of fiscal measures. On the basis of the results so far, prices can be expected to rise at a rate of about 6 per cent in the first half-year, and not slow until the second half. To achieve even this modest result, moreover, it will be necessary to prevent domestic demand from exercising any additional pressure and to ensure that the incomes and public tariff policy guidelines laid down in the Government's Forecasting and Planning Report are respected.

In the private sector it is possible that per capita labour costs will not rise any more than in 1988, if wage claims in supplementary company-level bargaining are moderate. In the public sector per capita compensation is expected to go up faster. Assuming no further rise in raw material prices, unit variable costs in manufacturing should increase at about the same pace as last year (5 per cent).

Failing additional action consistent with the fiscal programme introduced last September by the Finance Bill and the accompanying measures, the budget will boost demand. The underlying forces pushing up public expenditure have not yet been brought under control. In 1989, their effects will be supplemented by those of the new labour contract for the school system, the change in the index used to link pensions to real wages, and the increases enacted at the end of last year in the benefits accorded to persons with low incomes and in the amounts paid to remove pension distortions related to the year of retirement.

The IMF has recently estimated that, in the absence of additional measures, the state sector borrowing requirement will exceed 130 trillion lire, compared with the original target of 117.35 trillion. The overshoot relates both to the estimates for some areas of expenditure on the basis of existing programmes and to the actual impact of the budget. Should the deficit approach the larger figure, it would increase the risk of an acceleration of inflation and balance-of-payments difficulties.

The amounts actually needed for health care, social security and wage agreements for staff outside the school sector could exceed those allocated. Financial costs themselves could turn out to have been underestimated as a result of a larger borrowing requirement, a shortening of the average maturity of the debt and higher interest rates.

The budget formulated to date is based primarily on a substantial increase in tax and social security receipts (the extra revenue is officially forecast to amount to 10 trillion lire in 1989). The programme has been attenuated compared with the original proposals, since the various bills are being watered down in Parliament (see insert). The measures designed to decrease the borrowing requirement are indeterminate in some respects, whereas those that will increase expenditure or reduce revenue are marked by a high degree of certainty. The presumptive levels of income to be used for the tax condonation of the self-employed have not yet been fixed, nor have the yardsticks to be used in controlling taxpayers who opt for the conventional system of assessment or for simplified accounts. There is some doubt as to whether the social security institutions will succeed in collecting amounts due from earlier years on the scale foreseen. The income tax relief granted to public sector employees from January and to those in the private sector from February will reduce IRPEF revenues by around 6 trillion lire this year.

The deficit in 1989, but above all in the following years, is likely to be affected by the agreement between the Government and the trade unions that was reached after the Finance Bill had been approved. The automatic offsetting of fiscal drag and the relief granted with respect to social security contributions will cause a large loss of revenue. It is intended that this should be made good by as yet unspecified increases in other revenues: a reform of the taxation of income from financial assets, higher property taxes and restrictions on allowable expenses for personal income tax purposes.

A document prepared by the Committee of Experts for the Government Programme, under the aegis of the Prime Minister's office, provides the basis for defining the measures needed to contain the 1989 deficit and, more importantly, to remove the structural imbalances in the public finances — in health care, transport, pensions and public employment.

In recent months the financial situation has changed considerably, both in Italy and abroad. In the leading industrial countries monetary policy has been directed even more firmly to preventing a resurgence of inflation. Short-term interest rates have risen further and this upward movement has been transmitted to long-term rates.

In Italy, the risk of excessive demand, which would have repercussions on both the external accounts and inflation, is heightened by the budget deficit, much larger in January and February than is consistent with the objective for the year. The uncertainty in the financial market resulting from domestic and international conditions has severely depressed the demand for medium and long-term government securities, and their yields have risen on the secondary market. Since the beginning of the year Treasury bill issues have financed 75 per cent of the state sector borrowing requirement. Investors' preference for shorter-term paper was confirmed at the end-February Treasury bill auction.

With the aim of making interest rates more flexible, the Minister of the Treasury has decided to abolish the floor price for 6 and 12-month Treasury bill auctions, following its abolition for 3-month bills last July. This will increase the flexibility of monetary policy intervention by permitting interest rates to respond more closely to the underlying market conditions and the central bank's action. It will also help to sustain the demand for Treasury credit certificates, since their coupons are linked to the yields on these bills. The demand will also be boosted by the increase of about 30 basis points in yields announced for the issue of Treasury credit certificates at the beginning of March.

The risk of the economy overheating and the difficulty of financing the Treasury must be tackled with a coordinated set of economic policy measures providing clear signals of an early start on the reduction of the budget deficit. Until the budget measures produce their effects, monetary policy will have to continue to ensure that aggregate demand and inflation are kept under control.

The increase in the rates on the Bank of Italy's open market operations and its tight control of the monetary base will have to be reflected in bank lending rates. Upward pressure will also be applied by the compulsory reserve requirement on banks' net foreign currency positions. The additional cost of foreign currency borrowing as a result of the reserve requirement is estimated at around 1.5 percentage points. Despite the greater substitutability between borrowing abroad via direct channels and that intermediated by banks, the impact effect of the measure will curb the

The 1989 budget

Parliament's discussion of the budget measures for 1989, which were described in an insert in the last issue of the Bulletin, *is still largely under way, despite the approval of the Finance Bill on 24 December 1988.*

By the middle of February only a few of the sectoral measures upon which the budget is based had been approved: those regarding public employment, the entertainment sector, regional finances and health care expenditure. At the end of 1988 the Government had recourse to Decree Laws in order to give immediate effect to the provisions that had not been approved. These concerned: taxes, social security contributions, a set of financial measures, the transport sector and local autonomy. Most of the Decrees issued by the Government appear unlikely to be approved by Parliament before the end of February, when they will expire unless they are reissued by the Government. Parliament has made many changes, both in the measures still to be approved and in those already approved, with the result that the restrictive force of the budget has been attenuated.

There remains a great deal of uncertainty as to the effect the budget will actually have. In the case of some provisions this is both because it is not known in what form they will be approved by Parliament and because it is difficult to estimate their effect on the public finances. This applies especially to the measures regarding the avoidance of taxes and social security contributions and the new tax system for the self-employed and small businesses. The official forecasts prepared in September (which indicated a state sector borrowing requirement of 117.35 trillion lire in 1989) are currently being revised, partly as a result of the large overshoots recorded in 1988.

The budget has undergone further changes following the agreement reached between the Government and the trade unions on 26 January. On 15 February the Government submitted amendments to the tax Decree to take account of the terms of the agreement. For the most part, the new provisions will not affect the public finances until 1990. Simultaneously, a document prepared by the Committee of Experts for the Government Programme, set up at the Prime Minister's offce, was made public. This document should provide the reference framework for the formulation of additional measures designed to rationalize and curb public expenditure.

The principal changes in the original Government legislation

In the tax field, the Decree Law issued by the Government at the end of December: excluded from the tax condonation the 1988 returns of persons taxed on the basis of conventional assessments; reintroduced a fixed amount for the annual registration tax on joint-stock companies; increased the withholding tax on the compensation of self-employed workers from 18 to 19 per cent; made the reduction of the percentage of VAT relief in the livestock sector more gradual; increased from 12.5 to 30 per cent the withholding tax on income from bonds and comparable securities issued by unlisted companies outside the credit sector from 1989 on; and increased some government concession charges. The Decree Law on local autonomy and finances did not include the planned local consumption tax and revised the method of calculating the new communal tax on firms, artisans and professional activities. On the other hand, no changes were made in the revision of the personal income tax system (see insert in the section on the Public Finances).

The budget originally foresaw extra revenues amounting to 3 trillion lire without specifying the legislation that was to produce them. The Decree Law on taxation filled this gap (it had already been partly filled in November with an increase in the duty on tobacco products) by levying VAT at 4 per cent on some currently exempt products and transactions (including books and newspapers) and on those previously taxed at the rate of 2 per cent (primarily food products).

Following the agreement with the trade unions, the Government proposed some amendments to the tax Decree, permitting the annual recovery of fiscal drag as of 1990 if the inflation rate is above 2 per cent, bringing forward to May half the preliminary payments of personal, corporate and local income taxes and revising the system of allowable expenses.

In the field of ***social security contributions,*** *Parliament, which has not yet completed its examination of the relevant Decree, has extended the fiscalization of social charges to some sectors not included in the original proposal, which limited this relief to those heavily exposed to international competition; at the same time the amount of per capita relief has been restricted. The new rules on minimum wages for the purpose of calculating social security and health contributions have been attenuated. In addition, the Decree Law issued by the Government at the end of 1988 did not give effect to the original proposal requiring employers in industry to pay workers' sickness benefits instead of the corresponding contributions, a measure that in any case would have had little effect on the public finances.*

In the field of ***health care***, *more people have been exempted from payment of a part of the cost of medicines and analyses. Under the original proposal working persons would not have been exempted, apart from a very few exceptions, while the new legislation provides for exemption to be granted on the basis of income as recorded for tax purposes.*

inflow of foreign capital. In January and the first three weeks of February this inflow had led to a very substantial rise in banks' foreign currency loans to residents, 2.6 trillion lire in January alone, on top of the 5.8 trillion recorded in thelast quarter of 1988. Apart from the immediate problem, the fact that the reserve requirements on banks' foreign currency and lira deposits are now equal will permit more effective control over the expansion of credit in conditions of capital mobility and growing integration of financial markets.

Based on information available at 24 February

Articles

New Indices of Real and Nominal Effective Exchange Rates

1. Introduction

Since 1981 the Bank of Italy's Research Department has been preparing its own indicators of real and nominal exchange rates for a group of industrial countries.[1] A revision in 1983 increased the number of countries involved from ten to fourteen and replaced the price series used in calculating the real exchange rates by more appropriate ones in some countries, including Italy. Recently it was decided to update the data used for assigning the weights, include Spain in the new calculations and replace some of the price series. This note describes the changes in detail.

2. Updating the weights and extending the coverage

The method used to calculate the indices is of the "double weighting" type, which distinguishes between the dual role of each country as a "supplier" of goods (exporter) and as a "market outlet" (importer). This makes it possible to consider both the competition each country faces in export markets, from other countries' exporters and local domestic producers, and the competition in its own home market. The method of computing the weights is unchanged,[2] while the number of countries and the base period for the weighting system have both been modified.

The inclusion of Spain brings the number of countries now covered by the indices to fifteen.[3]

The new weights were computed with reference to the three years 1981-83, so that the weighting system reflects changes in the structure of trade flows subsequent to the two years 1977-78, the previous base period.

The new matrix of weights is based on each country's average exports of manufactures in 1981-83 (in current dollars) to each of the other countries. These data are available in the EEC's Volimex data bank, which uses the NACE-CLIO classification system. Compared with the SITC system, used up to now, this has the advantage of giving an aggregate for "manufactures" that includes petroleum products and processed food products and thus corresponds more closely to the sector covered by the price indices used.

The principal diagonal of the matrix of the basic data, which represents each country's domestic production for home use, was derived as follows, taking account of the constraints imposed by limitations of data availability:

— for countries with input-output tables for 1980 (Japan, Denmark, Germany, France, the Netherlands, the United Kingdom, Spain and Italy), the figure used was the value of gross marketable output, net of exports, as given in the matrix itself. The value of gross marketable output for the three-year base period was obtained, for the European countries, by taking the input-output figure for 1980 and applying the percentage changes drawn from the EEC survey of value added in each country (EUROSTAT). For Japan, the input-output figure was projected using the changes in the indices of industrial production and the wholesale price (for manufacturing in both cases);

- for the United States, the value of output given by the input-output tables for 1977 (the most recent available) was adjusted on the basis of the rise in domestic sales of manufactures;
- for Switzerland, Ireland, Austria, Sweden and Canada, for which no input-output matrices more recent than 1975 were available, recourse was made to a recent OECD study[4] giving the dollar value of the production of manufactures in OECD member countries for the entire base period;
- in the case of Belgium, given the lack of post-1975 input-output tables and inconsistencies in the OECD figures on the size of the manufacturing sector, the value of output was estimated on the basis of the relative size of Belgium's manufacturing sector compared with those of its main EEC partners. This calculation was made using the findings of the EUROSTAT value-added survey, harmonized by the EEC, which also gives the value of gross marketable output for every country.[5]

Table 1

The matrix of weights for the new indicators

	CAN	USA	JAP	BEL	FRA	GER	UK	NETH	SWITZ	ITALY	IRE	DEN	AUS	SWE	SPAIN	Total
Canada	—	76.91	8.49	0.57	1.94	3.41	3.68	0.74	0.68	1.63	0.25	0.25	0.24	0.78	0.42	100
United States	30.84	—	32.67	1.86	4.72	10.40	6.77	1.72	1.90	4.44	0.47	0.74	0.45	1.82	1.20	100
Japan	8.61	55.08	—	1.45	4.80	10.34	5.90	1.55	3.14	3.84	0.53	1.28	0.77	1.66	1.05	100
Belgium	1.09	11.15	5.74	—	18.97	25.60	11.08	9.10	2.61	7.70	0.60	1.17	1.25	2.27	1.68	100
France	0.98	10.56	5.25	10.74	—	29.37	8.94	6.68	3.68	14.60	0.85	1.04	1.07	2.26	3.98	100
Germany	1.28	12.64	8.64	8.39	15.99	—	8.87	11.00	5.87	12.86	0.84	2.36	5.35	3.74	2.16	100
United Kingdom	3.17	18.20	10.02	6.65	11.12	15.99	—	7.47	3.25	7.96	4.93	3.16	1.27	4.62	2.19	100
Netherlands	1.34	12.76	6.94	6.78	12.43	30.28	11.61	—	2.30	7.44	0.81	1.34	1.40	2.81	1.75	100
Switzerland	1.02	11.71	6.91	3.61	12.48	30.61	9.22	3.41	—	10.98	0.38	1.33	4.42	2.40	1.52	100
Italy	1.16	10.33	4.40	5.22	20.45	30.16	8.03	5.68	4.53	—	0.57	1.52	3.24	2.29	2.42	100
Ireland	1.56	13.28	4.60	2.45	7.20	12.49	43.51	4.10	1.36	4.07	—	1.08	0.65	2.23	1.42	100
Denmark	0.93	9.85	8.02	3.54	7.11	27.21	12.95	4.94	3.05	6.14	0.64	—	1.59	12.76	1.27	100
Austria	0.63	5.90	5.23	2.61	6.09	48.03	4.74	3.59	7.37	10.96	0.32	0.98	—	2.60	0.94	100
Sweden	1.42	14.07	8.42	3.56	8.37	25.25	13.29	5.10	3.27	5.80	0.74	7.10	2.09	—	1.51	100
Spain	0.93	13.13	6.76	3.47	20.38	22.55	10.21	4.04	3.09	9.80	0.80	0.86	1.31	2.68	—	100

Table 2

Absolute changes in weights compared with the 1977-78 matrix (1)

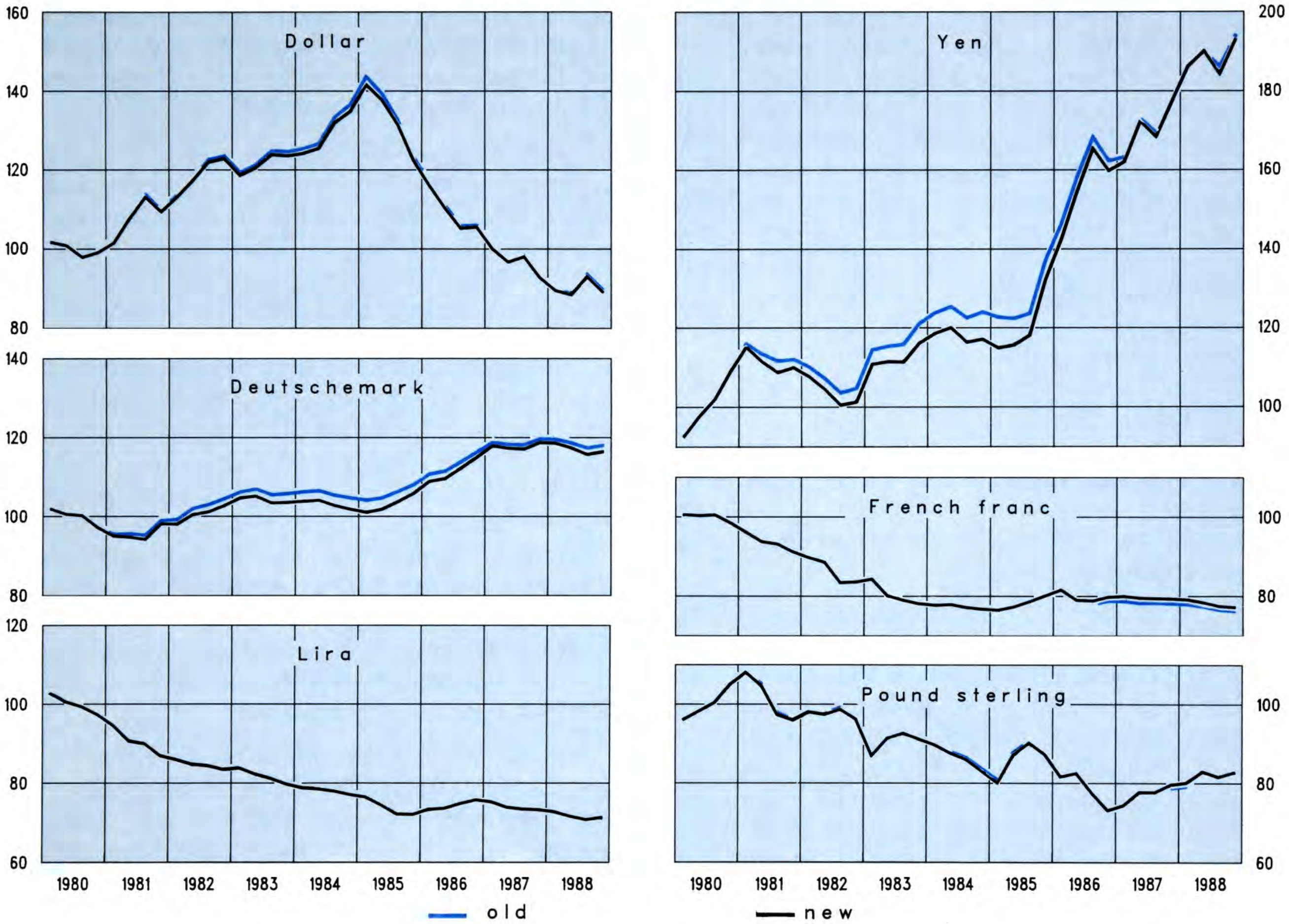
	CAN	USA	JAP	BEL	FRA	GER	UK	NETH	SWITZ	ITALY	IRE	DEN	AUS	SWE	SPAIN
Canada	—	−2.10	2.27	0.07	−0.10	−0.22	−0.70	0.14	−0.05	0.23	0.06	0.04	−0.01	−0.04	0.42
United States	1.90	—	1.69	−0.57	−0.55	−2.10	−1.15	−0.23	−0.11	−0.17	0.05	—	−0.04	0.07	1.20
Japan	3.73	7.91	—	−0.37	−0.94	−4.73	−3.18	−0.81	−2.23	−0.62	0.22	0.31	0.12	−0.46	1.05
Belgium	0.50	1.95	1.12	—	−0.70	−4.41	1.48	−4.06	0.10	1.29	0.26	0.26	0.25	0.29	1.68
France	0.28	1.50	0.73	−3.35	—	−2.99	−0.14	−0.21	−0.45	−0.23	0.43	0.17	0.08	0.22	3.98
Germany	0.58	2.74	1.53	−4.33	−1.94	—	0.51	−1.20	−0.29	−1.20	0.30	0.37	0.30	0.47	2.16
United Kingdom	0.60	2.05	1.37	−0.10	−0.93	−4.99	—	0.60	−1.22	0.29	0.70	0.13	−0.31	−0.38	2.19
Netherlands	0.60	3.80	1.51	−7.81	1.17	−4.66	1.13	—	0.01	1.43	0.31	0.15	0.18	0.43	1.75
Switzerland	0.24	2.65	1.01	−0.66	0.02	−1.93	−4.63	0.02	—	1.43	0.17	0.22	−0.10	0.03	1.52
Italy	0.47	1.07	0.19	−1.24	−1.83	−2.18	−0.39	−0.06	−0.37	—	0.26	0.69	0.95	−0.01	2.42
Ireland	0.35	2.26	0.58	−0.27	0.90	0.26	−6.14	0.05	0.04	0.49	—	−0.06	−0.02	0.07	1.42
Denmark	0.26	2.02	0.60	−0.53	0.32	−0.36	−1.36	−0.09	−0.24	1.61	0.13	—	−0.37	−3.26	1.27
Austria	0.20	1.16	1.35	−0.43	−0.11	−2.66	−0.83	0.02	−1.19	1.97	−0.11	−0.18	—	−0.34	−0.94
Sweden	0.29	2.48	0.24	−0.75	0.62	−1.12	−1.39	−0.07	−0.59	0.81	0.27	−1.68	−0.62	—	1.51

(1) For the net change in each row to be zero, it is necessary to add the weight for Spain, which was not included in the previous index.

Figure 1

Global nominal effective exchange rates: comparison between the new and the old indices

(quarterly figures, 1980=100)



The revised weightings used to calculate the new indicators are set forth in Table 1. Each row sums to 100. Table 2 shows the differences between the new weights and those used until now in constructing the indicators published in the Annual Report and previous issues of the Bulletin.

Reading column by column, Table 2 shows that the United States, Japan and Canada increased their importance as competitors in respect of all the other countries, an exception being the decline of US competition in the Canadian market. In addition, there was an increase in trade interdependence among these three countries. In the revised system, the weight of one country as a competitor in each of the other two is in no case less than 60 per cent. In Germany and Belgium the decline in weights ran roughly in parallel, as to a lesser extent did those of France and the United Kingdom. The reduced importance of the EEC member countries considered in the construction of the old indices is explained only in part by the inclusion of Spain. As far as the Italian market is concerned, the increase in combined weights of the three major non-European economies was less marked than it was for the other EEC countries. The latters' loss of importance as competitors of Italy between the old and new base periods amounted to about five percentage points, and in this case too the decline was not compensated by the inclusion of Spain.

3. Nominal effective exchange rate indicators

The change in the reference period for calculating the weights and the inclusion of Spain among the countries covered have resulted in a number of differences between the old and new nominal effective exchange rate indicators. The series of bilateral exchange rates have not been modified and are still derived from the same source (IMF). The differences for the leading industrial countries are not generally very large (Figure 1). Indeed, they are almost negligible for the lira and the pound sterling though they are more evident for the yen and especially the Deutschemark. In the case of the latter currency, the new index is almost consistently lower than the old one. The gap is widest between 1982 and 1985, owing to an increase in the weight of the dollar and the yen, which appreciated against the Deutschemark during that period.

Examination of the broad movements of nominal effective exchange rates,[6] confirms the tendency of the Deutschemark and the yen to strengthen after 1981-82, with the trend becoming more pronounced during the period of the dollar's decline. Following its strong appreciation in the preceding years, the dollar fell from early 1985 onwards and by 1988 was about 10 per cent below its level at the beginning of the decade. For most of the eighties the other currencies considered showed a marked downward trend, which in the case of the French franc was interrupted in early 1985, and for the other two currencies later. In particular, the steady rise in the index of the pound sterling after 1986 reflects the strong appreciation of this currency against almost all the others.

4. Real effective exchange rate indicators

By adjusting nominal exchange rates with an appropriate index of relative inflation for each country it is possible to construct a real exchange rate indicator. Any appreciation in the latter, which is shown by a rise in the index, points to a deterioration in the price competitiveness of the country in question. We shall deal here only with the indicators based on wholesale or producer prices of manufactures. These indicators are particularly useful in current economic analysis, where they have a comparative advantage over those based on unit labour costs or export unit values (which are also computed in the Research Department) because they are promptly and frequently updated (monthly).

Indicators of this kind measure a country's competitiveness with respect to a given period. In other words, they are based on a concept of relative, not absolute, competitiveness. Thanks to the structure of the weighting system, real effective exchange rates are intended to make it possible to gauge the degree of competitiveness of the manufactures of each country considered, in relation to the other countries in the calculation, in all markets, including the domestic market and those of third countries. Finally, since they are based on the producer (or wholesale) prices of manufactures, they give an indication of the "potential" competitiveness of tradeable goods. This measure can differ, even for lengthy periods, from that expressed in terms of traded goods, owing to the pricing policies of exporters who, by varying their profit margins, seek to achieve their goals in terms of market share.

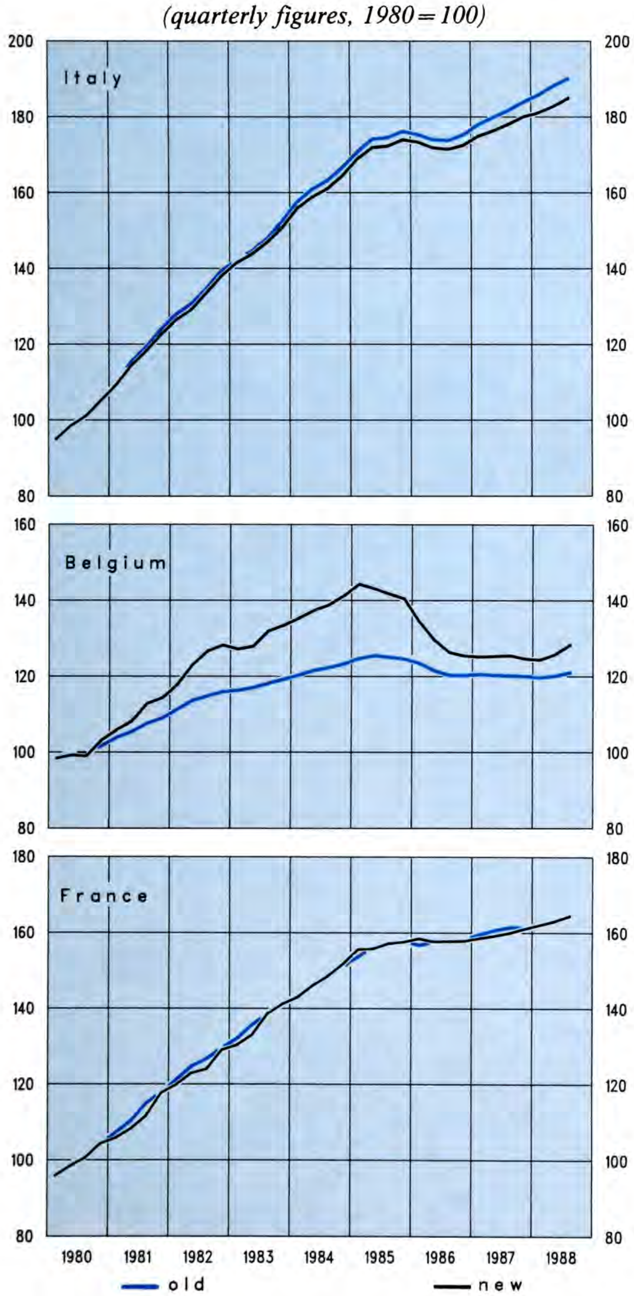
In the revised version, the real exchange rate indices are affected by the following factors: 1) the increase in the number of countries considered in the calculations; 2) the use of new weights in computing each country's nominal effective exchange rates, and 3) the replacement of the price series used in the earlier version for Italy, France and Belgium.

In the case of Italy, the new Istat series of domestic producer prices for the various branches of industry permitted the aggregate index of the producer prices of manufactures to be completely revised. For the years after 1980 the revision concerned not only the component series, consisting previously of wholesale prices, but also the weightings used to obtain aggregate price indices. These weightings continue to be based on the flows of output taken from input-output tables and then expressed in constant prices. However, the statistical coverage was enlarged, in particular by using the 1982 input-output table to calculate the system of weights to be used for more recent years. On the other hand, no changes were made in the method of selecting the industrial sectors used in compiling the price index for manufactures: these include all manufacturing industry and two branches of the energy sector (petroleum products and products of coking.[7]

Figure 2

Comparison between the new and the old price indices

(quarterly figures, 1980 = 100)



Comparison of the old and new price indicators (Figure 2) shows that the latter, based on producer prices, rose less sharply in 1981 and 1984 and especially after the second quarter of 1987. This partly explains the less pronounced rise of the real exchange rate of the lira after 1980 (Figure 3).

In the case of France, an index of producer prices for the manufacturing sector compiled by INSEE became available. This made it possible to replace the series used previously, which had had to be based on the consumer prices of manufactures. Though slightly lower in the period 1980-84, the new index followed a basically similar course to that of the earlier series, which is still used to interpolate the new, quarterly, series with monthly figures.

Lastly, in Belgium the Ministry for Economic Affairs has compiled an index of producer prices for the manufacturing sector which replaces the index of wholesale prices used previously. The difference between the new and the old indices, which is considerable, is attributable both to the system of weighting the component series, which in the old index referred to the year 1936, and to the methods used to calculate the two indices; the new index is based on Laspeyres' formula, while the old was obtained using a simple geometric mean.

In terms of their effects on real exchange rates, the changes made with respect to the old Bank of Italy indicators are fairly significant, with the sole exception of the United States (Figure 3). The high degree of trade integration in Europe magnifies the variations caused by replacing the price series for Italy, France and Belgium as well as by the updating of the weighting system. In the most recent period, the gap between the old and new indices tends to close for France and actually disappears for the United Kingdom. On the other hand, the new index of real exchange rates of the Deutschemark, and especially of the lira, is lower than the old throughout the whole period. In the case of Italy, in particular, the new indicator shows a more pronounced depreciation both in the period 1980-82 (−3.7 per cent as against −1.8 per cent) and between the start of 1983 and the third quarter of 1985 (−4.8 per cent as against −3.1 per cent). For 1986 the two indicators register an almost identical loss of competitiveness (approximately 5 per cent over the year), but in the next two years the gap between them widens again: the old indicator records a modest improvement in competitiveness (with the real exchange rate declining by 2.3 per cent between the first quarter of 1987 and the third quarter of 1988), while the new one, according to which Italian competitiveness in the third quarter of last year was back at the average level for 1980, indicates a larger gain (4 per cent), though still not enough to make good all the loss recorded in 1986.

The new indicators[8] suggest that, with the exception of the United States, the fall in real exchange rates (gains in competitiveness) in the early eighties was greater than that suggested by the old indices, and this is particularly true for the yen and the Deutschemark. Since, as already noted, the divergences between the new and the old indices tended to disappear towards the end of the period considered, in the phase of appreciation that started in 1985 the new index shows a more pronounced change. In the case of the dollar, the reverse would seem to be true: both the earlier loss in competitiveness and the later improvement are less prominent in the new index than in the old.

Figure 3

Comparison between the new and the old indicators of global real effective exchange rates

(quarterly indices, 1980 = 100)

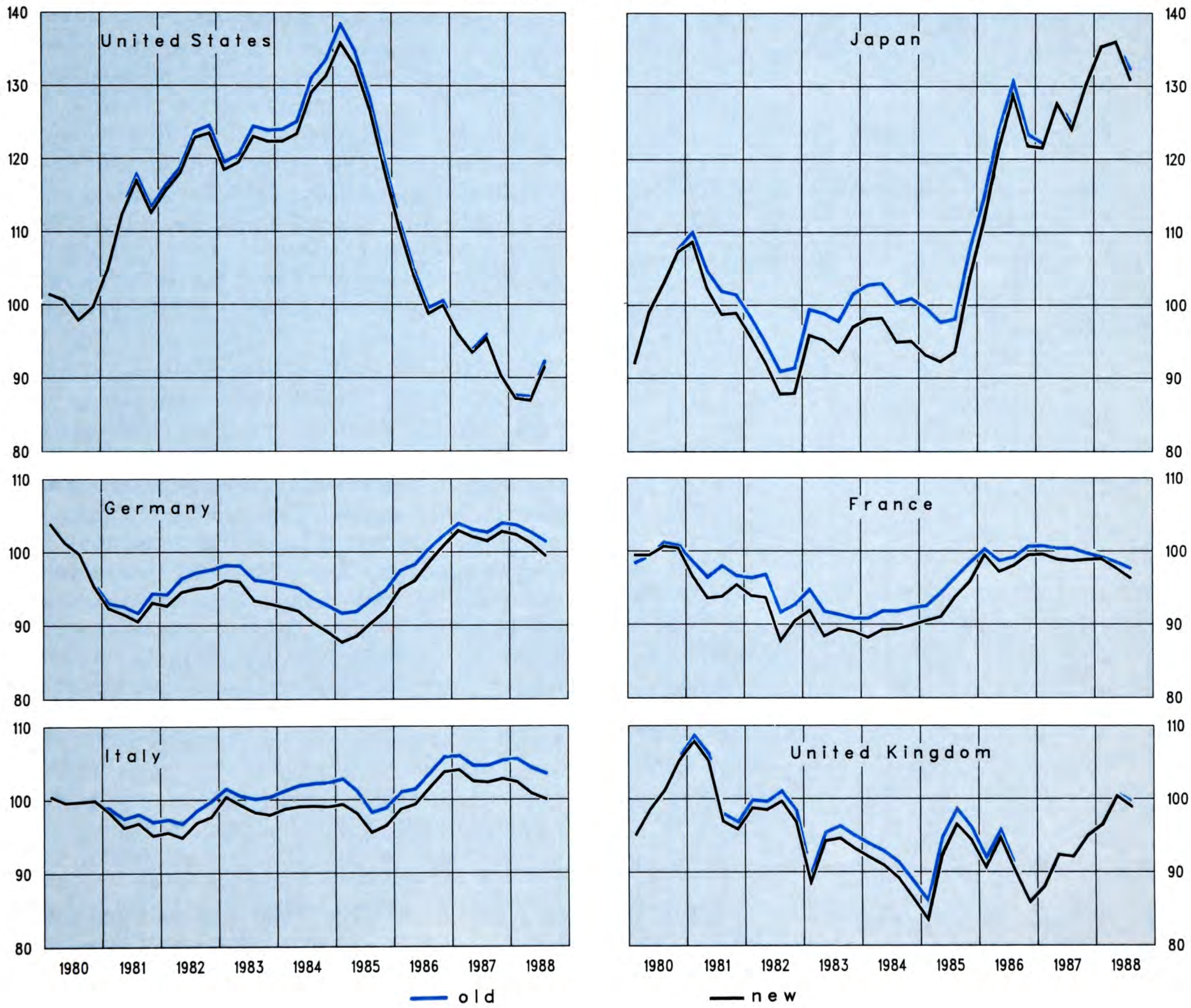
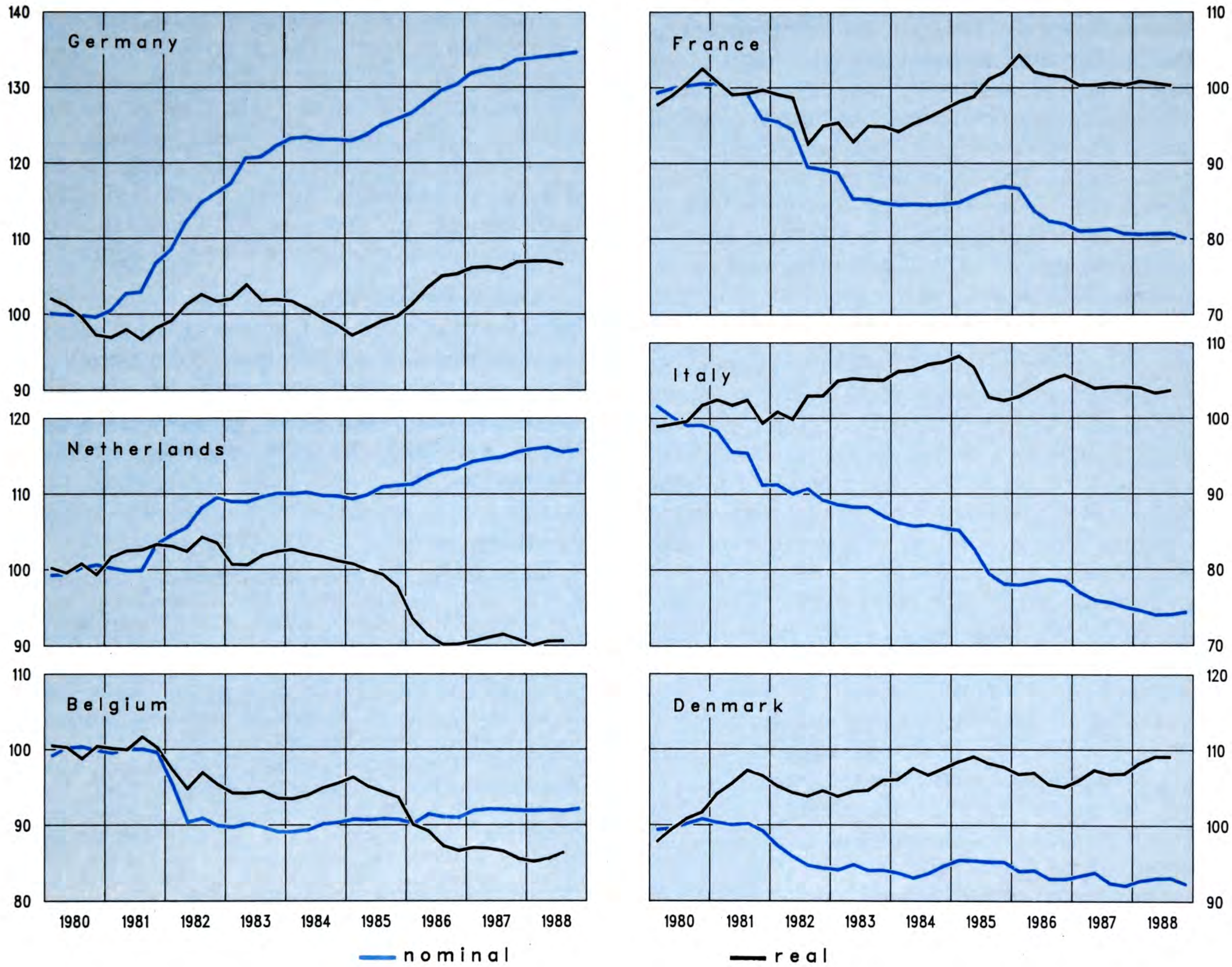


Figure 4

Effective exchange rates of the ERM countries

(quarterly figures, 1980 = 100)



5. Real and nominal effective exchange rates in the EMS

In view of the importance of the exchange rate relationships with their EMS partners for the economic policy of Italy and the other member states, Figure 4 shows changes in the real and nominal effective exchange rates of the currencies adhering to the Exchange Rate Mechanism of the EMS, except for the Irish pound, which is nonetheless included in the calculations.

With the method adopted the real exchange rate indices measure the competitiveness of each country with respect to its ERM partners in the world market and not just in the EMS area.

The new indicators confirm that between 1980 and 1988 the DM and the guilder appreciated considerably in nominal terms against the other ERM currencies. The rise in the DM was larger than that in the guilder and in the first half of the eighties almost completely offset the competitive advantages accruing to Germany from its lower rate of inflation (in terms of the producer prices of manufactures). Subsequently, however, the inflation differential between Germany and the other ERM countries narrowed, so that the appreciation of the DM led to a sizeable loss of competitiveness. By contrast, the competitiveness of the Netherlands declined in the first half of the eighties, albeit only very slightly, and then recorded a substantial improvement as a result of favourable relative price developments for manufactures. These developments primarily reflected the collapse in 1986 in the prices of crude oil and other energy sources which led to a fall in the prices of oil products and basic chemicals, both sectors being relatively larger in the Netherlands than in the other ERM countries.

In contrast with the DM and the guilder, the French franc and especially the lira depreciated fairly steadily in nominal terms during the whole period, though at a declining pace as time went on. From 1980 up to the beginning of 1984 the depreciation of the franc more than compensated for France's unfavourable inflation differential, thus bringing about an improvement in that country's industrial competitiveness. This was followed by an even larger appreciation of the real exchange rate that extended up to the beginning of 1986. Thereafter, the competitiveness of French industry fell back to its 1980 level. The real exchange rate of the lira followed a very different course: in the initial phase, from 1980 to 1984, the index recorded a clear-cut increase, but in 1985 this rise was partly reversed owing to a large fall in the nominal exchange rate. Subsequently, the lira's real exchange rate remained 4-5 percentage points above its 1980 level. The reduction in Italy's inflation differential in relation to the other ERM countries made it possible to stabilize Italian industry's competitiveness, while also reducing considerably the rate of depreciation of the lira in nominal terms, which in fact actually appreciated somewhat in the latter part of 1988.

The other two currencies in question both depreciated in nominal terms in the early eighties, with the Belgian franc falling more than the Danish krone; the latter then remained fairly stable, while the BF rose slightly. The corresponding changes in price competitiveness differed considerably, however, with a significant deterioration in the case of Denmark and a substantial improvement in that of Belgium.

Generally speaking, these results confirm the conclusion reached on the basis of other analyses that variations in the nominal, and especially the real, effective exchange rates of the ERM currencies have been much less pronounced than those recorded by the leading non-ERM currencies.

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(1) See R. Valcamonici and S. Vona, *Indicatori di competitività per l'Italia e per i principali paesi industriali: metodologia e criteri di calcolo*, Banca d'Italia, Bollettino Statistico, no. 1-2, January-June 1982.

(2) For a detailed description, see *Indicatori di competitività ...*, op.cit.

(3) Canada, the United States, Japan, Belgium, France, Germany, the United Kingdom, the Netherlands, Switzerland, Italy, Ireland, Denmark, Austria, Sweden and Spain.

(4) See Martine Durand, *Method of Calculating Effective Exchange Rates and Indicators of Competitiveness*, OECD Working Paper, no. 29, Paris 1986.

(5) Since this survey does not include firms with less than 20 employees, it could not be used to derive the value of production. It was therefore necessary to make certain assumptions about the latter's relative size, as described in the text.

(6) The values of the indices are shown in the statistical appendix to this issue of the Bulletin (Table a9).

(7) The method of calculation is described in P. Rubino, *Nuovi indicatori dei prezzi input-output*, Banca d'Italia, mimeo.

(8) The values of the indices are shown in the statistical appendix to this issue of the Bulletin (Table a10).

Projects Concerning the Payment System: the Exchange of Out-of-town Cheques in the Clearing Houses and the Admission of the Postal Administration to the Daily Clearing of Payment Items[1]

1. Introduction

Two of the initiatives described in a Bank of Italy report of April 1988 on plans to reform the payment system[2] were put into effect in November of that year. The first concerns the exchange and settlement of out-of-town cheques in the clearing houses and clearing departments and the second the participation of the Postal Administration in the daily clearing of payment items.

The two initiatives, which are designed to rationalize the exchange procedures for paper-based payment instruments that were previously handled bilaterally, provide for such payment transactions to be presented at the daily clearing operated by the clearing houses and clearing departments in all the provincial capitals.

In view of its wide territorial coverage, the clearing of payment items is in fact an efficient system where documents must be exchanged physically. It also makes it possible to impose uniform rules of behaviour on participants and to require them to settle cleared transactions via accounts at the central bank.

The participation of the Postal Administration in the clearing system is significant not only because of the need to rationalize the exchange of payments but also because it constitutes part of a strategic plan to achieve greater integration between the banking and postal systems. The establishment of an organizational and legal framework for the transmission of payment transactions between the two circuits is a first step towards other kinds of link.

2. The cheque circuit

In Italy the cheque is the most widely used non-cash payment instrument; it is estimated that around 480 million were issued in 1987.[3]

The "quality" of the cheque as a payment instrument depends largely on the efficiency of the interbank exchange procedures.

The cheque's passage through the interbank circuit begins when it is presented to a bank. The collecting bank generally does not release the funds to the customer until it is certain that the drawer's account has been debited, since cheque negotiation exposes the bank to the risk of paying cheques that are invalid or irregular, generally because the signature is false or there is insufficient cover. Nevertheless, many banks do not make the release of funds conditional on the fate of the cheque, so that in this way they assume a credit risk.

The next step is for the negotiated cheque to be forwarded to the bank branch holding the issuer's account to verify that it is valid and in order. The legal provisions for officially ascertaining dishonour also make it necessary for the drawn branch to have possession of the actual cheque, since the law stipulates that protests must be lodged at the place of payment.

The circuit is completed when the collecting bank learns of the fate of the cheque. The collecting bank is notified if the cheque is invalid or otherwise irregular, in that the drawn bank returns it unpaid. The period for returns is fairly long, especially if it has been necessary to invoke the protest procedure. If the cheque is in order, by contrast, the collecting bank is not expressly notified unless there are agreements to this effect; if it is not returned within the time normally taken for unpaid items to be sent back, it is assumed to have been cleared.[4] Uncertainty about the fate of cheques therefore causes long delays in the release of funds to customers.

3. The interbank procedures

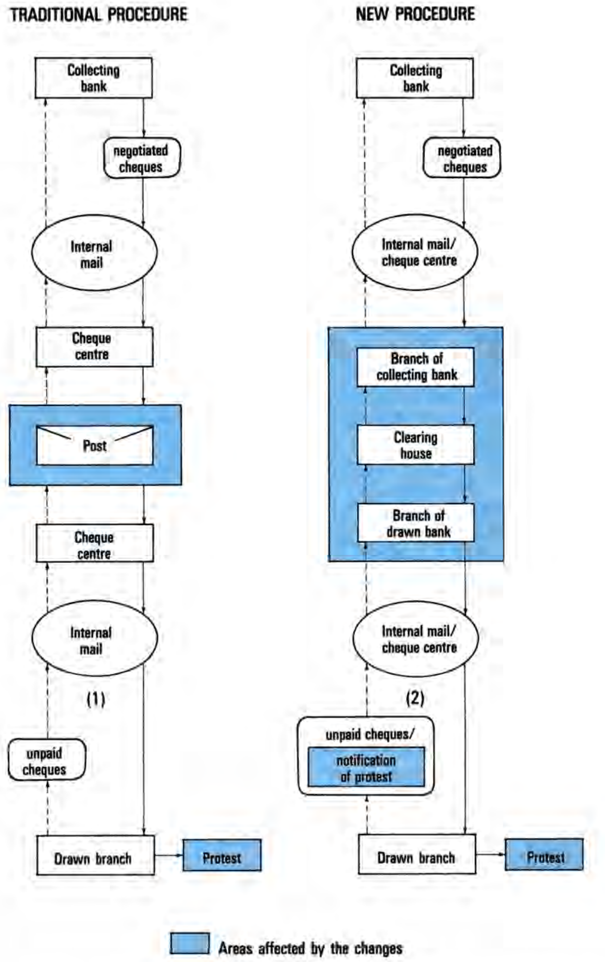
The interbank procedures for exchanging cheques vary, according to whether or not the place of collection coincides with the place of payment.

Local cheques, in other words those presented at the place of payment, are exchanged in the clearing houses and clearing departments operated by the Bank of Italy. Within the clearing system, the rule that irregular items must be returned within two working days of presentation enables the collecting bank to ascertain that a cheque is good within that period and to release funds to customers fairly quickly, on average four days after presentation. Moreover, the value of exchanged cheques counts towards the clearing balance settled at the end of the day via the banks' accounts with the Bank of Italy.

Using the traditional procedure for out-of-town cheques, the item is sent to the drawn branch, generally by post (see the diagram), and the amount is settled by means of accounting entries in bilateral correspondent accounts kept by the banks. In the absence of a time limit for returning unpaid items, the time required for funds to be released is far longer, ranging up to a maximum of about a month, as revealed by a survey of a sample of 22 banks. Moreover, the crediting and debiting of such transactions to interbank correspondent accounts entails the creation of "items in transit", giving rise to uncertainty as to the level of the reciprocal balance and the date on which funds are actually transferred between the banking counterparties.

4. The new procedure for out-of-town cheques

The plan to permit out-of-town cheques to be exchanged and settled in the clearing houses and clearing departments represents an attempt to overcome the inefficiencies described above using the available infrastructure and operating within the framework of existing legislation. Under the new procedure (see the diagram) the collecting and drawn banks will be able to exchange out-of-town cheques in one or more clearing houses or clearing departments to which they both belong and designated in bilateral agreements according to their mutual convenience. The agreements oblige the signatories to return unpaid items at the clearing house at which they were originally presented within seven working days of presentation. If a cheque must be protested, the drawn bank is required to notify the collecting bank within the same time limit. The expiry of the time limit without the cheque having been returned or protested is treated as a binding notification that the cheque is good. In this way, the operational conditions are created for funds to be credited to customers within a maximum of nine working days from the presentation of the cheque to the collecting bank.



(1) The traditional arrangement sets no time limits for returning unpaid cheques. — (2) Under the new procedure unpaid cheques must be returned,to the clearing house within seven working days of presentation; if cheques are protested, notification of protest must be made within the same period. At a later stage the clearing houses will issue a declaration in lieu of protest; it will then be possible to return all dishonoured cheques to the clearing house within the above time limit

Under the new procedure it is important for every bank to be able to communicate with every other credit institution. Only then can an individual bank guarantee its customers that the proceeds from all negotiated cheques will be credited more promptly and avoid the cost of operating a parallel system for the exchange and settlement of out-of-town cheques. With this in mind, provision was also made for a form of indirect participation in the procedure by allowing interbank collection and payment orders relating to out-of-town cheques to be channeled via other credit institutions. In this way, credit institutions that are not members of the clearing houses can use the new arrangements and banks represented in different clearing houses can establish reciprocal relations.

At a later stage the arrangements will be completed by introducing the declaration in lieu of protest in accordance with Article 45 (1) (iii) of Royal Decree 1736 of 21 December 1933; these documents will be issued directly by the clearing houses. It will then also be possible for cheques officially certified as dishonoured to be returned via the clearing system within the above time limit.

5. The results achieved

After a trial period from July onwards, the scheme came into operation on 16 November 1988. Seventy-three of the 95 towns and cities in which clearing takes place were selected for the exchange of out-of-town cheques. More than 90 per cent of the banking system is already using the procedure. Of the 274 banks belonging to the clearing system, 233 are participating directly and 37 indirectly; 727 of the 831 banks that are not clearing house members are participating indirectly. Around 3,500 bilateral agreements have been concluded, more than 50 per cent of the theoretical maximum on the basis of the actual membership of the clearing houses and clearing departments.

In the initial period of operations, from 16 November to 31 December, 18.9 million out-of-town cheques with a total value of around 45 trillion lire were exchanged in the clearings (Table 1). The proportion of cheques handled under the new procedure can be judged from the fact that the number of out-of-town cheques issued in the course of 1987 is estimated at around 200 million.[5] More than 60 per cent of exchanges took place in the Milan and Rome clearing houses, owing partly to the fact that their membership includes the central credit institutions, which perform an important function as agents for a large number of associated institutions.

Of the 18.9 million cheques exchanged, 50,000 irregular items were returned within the time limit (0.26 per cent of total cheques exchanged), while suspension of the time limit to allow the protest procedure to be instituted was notified in the case of 87,000 cheques (0.46 per cent). By comparison with this figure for notifications, only 11,000 cheques were returned protested (0.06 per cent of the total). All in all, unpaid items came to 61,000 (0.32 per cent of the total).

Table 1

Out-of-town cheques exchanged in the clearing houses and clearing departments

(16 November - 31 December 1988)

	Number	Percentage of cheques presented	Value (mn lire)	Percentage of cheques presented
Cheques presented	**18,910,961**	**100**	**44,776,135**	**100**
of which:				
Unpaid cheques returned within the time limit (a)	49,685	0.26	170,504	0.38
Cheques notified as being in suspense	86,901	0.46	397,760	0.89
of which:				
Cheques returned protested (b)	*10,913*	*0.06*	*46,991*	*0.10*
Total unpaid cheques (a+b)	60,598	0.32	217,495	0.49

6. Admission of the Postal Administration to the daily clearing of payment items

The volume of services currently exchanged between the banks and the Postal Administration is substantial. In particular, certain types of bank instrument, such as banker's drafts, credit paper (fedi de credito) and promissory notes, can be used to make payments at post offices. For their part, banks accept inpayments from customers using postal instruments of any kind. In addition, the Postal Administration asks the banks to issue banker's drafts for internal movements of funds between post offices in provincial capitals and local offices and for various kinds of payment made at post office counters.

Table 2

Transactions cleared between banks and the Postal Administration (1)

(14 November - 31 December 1988)

	Total	
	Number	Value (mn lire)
Operations credited to the Postal Administration	178,449	693,270
Daily average per centre	1,352	5,252
Operations credited to banks (2)	34,315	1,317,629
Daily average per centre	260	9,982

(1) The centres covered at present are Bologna, Cosenza, Latina and Padua. — (2) Including memoranda for crediting to banks, issued in respect of banker's drafts drawn for the Postal Administration, totalling 424 billion lire.

The absence of codified procedures for the exchange and settlement of postal payment instruments paid in at banks and of bank payment instruments in the possession of the Postal Administration leads to diseconomies and inefficiencies for both systems and causes delays in crediting the proceeds of payments, thus reducing the quality of service to users.

The participation of the Postal Administration in the daily clearing began on 14 November under a plan providing for phased admission of the provincial area post offices to the clearing houses and departments. Four centres — Bologna, Cosenza, Latina and Padua — have joined the system so far, but it is planned that a further 14 provincial capitals (Ancona, Bari, Cagliari, Campobasso, Florence, Mantua, Messina, Perugia, Pescara, Potenza, Savona, Turin, Trento and Trieste) will be included by March and the entire country should be covered by the middle of this year.

As regards the type of items exchanged, there is currently provision for the Postal Administration to present bank payment instruments received in payment for postal banking services and banker's drafts relating to the funds transfer service; the banks, for their part, can present postal cheques paid in by their customers, subject to certain limitations for some special types of cheque for the payment of social benefits and annuities. Postal money orders have been excluded, however, pending amendment of the regulation to remove restrictions associated with the domiciliation of such instruments; nevertheless, it is planned that money orders domiciled in the provincial capital will be admitted to the clearing in the next few months.

Between 14 November and 31 December 178,000 transactions with a total value of 693 billion lire were presented in the four centres for crediting to the Postal Administration, compared with 34,000 with a value of 1,317 billion lire for crediting to banks (Table 2).

(1) Prepared by the Advances, Discounting and Clearing Department and the Secretariat of the Payment System Planning and Coordination Group.

(2) Il sistema dei pagamenti in Italia: progetti di intervento, Banca d'Italia, April 1988.

(3) The estimate was obtained by extrapolating for the entire banking system the number of cheques issued in 1987 by a sample of 75 banks that gather 80 per cent of current account deposits. The figure does not include cheques used to withdraw cash over the counter, which can be put at about 75 million.

(4) In practice, the fate of the cheque may be notified by telex or telephone at the request of the collecting bank.

(5) The estimate was obtained by assuming that out-of-town cheques represent 40 per cent of total cheques, as suggested by a survey conducted among a sample of 22 banks (cf. White Paper on the Payment System in Italy, Banca d'Italia, April 1988).

Documents

Changes in the System of Compulsory Reserves

Resolution adopted by the
Interministerial Committee for Credit and Savings
20 January 1989

Under the present system of reserve requirements, the banks specified in Article 5 of Royal Decree Law 375/1936 as subsequently amended, with the exception of second-class pledge banks and rural and artisans' banks, are required to maintain a compulsory cash reserve amounting to 22.5 per cent of their lira deposits less their capital and reserves.

Banks that have not reached this level have to increase their compulsory cash reserves by 25 per cent of the rise in the aggregates subject to the reserve requirement as recorded each month with respect to the previous month.

In the event of a decline in these aggregates, banks will be able to reduce their compulsory reserves by 22.5 per cent of the fall.

The Minister of the Treasury is authorized to modify, on the advice of the Governor of the Bank of Italy, these reserve requirements within a range of plus or minus 2.5 percentage points for the average (or stock) ratio and within a range of plus or minus 5 percentage points for the marginal (or flow) ratio. Such changes can refer to all the deposits subject to the reserve requirement or to specific categories.

Banks shall deposit the amounts due in accordance with the foregoing with the Bank of Italy.

The return on the amounts deposited in compliance with these reserve requirements shall be paid by the Bank of Italy at rates that can vary according to the category of underlying deposit and which will be fixed in a Decree issued by the Minister of the Treasury after consulting the Governor of the Bank of Italy.

Under provisions of the newly modified system, it will be possible for a bank to draw on its reserves in conformity with the conditions that the Bank of Italy will establish, provided that the amount of its reserves never falls below 95 per cent of the amount required and that the average level of its reserves each month is not less than the required amount.

If, at the end of the reference period for the calculation of the average monthly level of the reserves, a bank is found to have fallen short of the required amount, it will have to make a payment calculated by applying a rate (comprising a reference rate with an added penalty laid down by the Minister of the Treasury on the advice of the Bank of Italy) to the difference for a period of thirty days. For the purposes of the calculation, the applicable reference rate and penalty shall be those effective on the day on which the shortfall occurred.

In the event of repeated failures to comply with the requirement on the part of an individual credit institution, the Bank of Italy may suspend its right to draw on its compulsory reserves during the month.

The Bank of Italy shall prepare rules and appropriate penalties to be applied in the event of delays in the transmission of data needed to control compliance with the compulsory reserve requirement as well as failures to comply with the reserve requirement for which banks cannot be held responsible.

The banks specified above are also required to establish a compulsory reserve in lire to be held by the Bank of Italy in respect of their foreign currency deposits net of amounts reinvested abroad or onlent to other Italian banks. The Minister of the Treasury shall fix, on the advice of the Governor of the Bank of Italy, the ratios to be applied, and how and when.

The Bank of Italy, which is empowered to issue the necessary implementing regulations, will also establish the aggregates to be considered and how the related calculations, including the monthly average, are to be made.

Banks that make use, or intend to make use, of instruments that differ in technical form but not in substance from deposits shall give advance notice of such operations to the Bank of Italy, which will issue instructions regarding their liability to the reserve requirement.

For a transition period of not more than one year the Bank of Italy may decide, in the light of conditions on the money and financial markets, to restrict the amount that banks can draw from their compulsory reserve deposits to less than the 5 per cent limit fixed above.

The regulations currently in force shall remain effective until the date fixed in a decree issued by the Minister of the Treasury, after consulting the Bank of Italy, giving effect to this resolution.

Speeches

The State and Prospects of the Public Finances

Statement by the Governor, Carlo A. Ciampi, to the Budget, Treasury and Planning Committee of the Chamber of Deputies

Rome, 8 February 1989

1. The acutely imbalanced state of the public finances is the key issue facing the Italian economy. The seriousness of the problem can be summed up in just a few figures. In 1988 Italy's public sector borrowing requirement was equivalent to 11.5 per cent of GDP, five times the average ratio of the other six leading industrial countries. By the end of last year the public debt had risen to 1,035,500 billion lire. Because of the short average maturity of the debt represented by securities, gross new issues of government paper in 1988 totaled 500,000 billion lire.

These imbalances slow growth, accentuate instability, threaten inflation and distance Italy from the rest of Europe. That the problem should receive unconditional priority over all others is now recognized by everybody. This convergence of opinion provides all the more reason for going ahead with the rehabilitation of the public finances.

2. The rate of economic growth in 1988 has confirmed that the Italian economy, with its capacity for work and saving, can generate the resources required to put the public finances back on a sound footing. In particular, the primary deficit, i.e. net of interest payments, (amounting in 1988 to 36,400 billion lire, or 3.4 per cent of GDP) could be eliminated in just a few years without recessionary shocks to the economy.

Over the years, the growth of debt has been such that interest payments (87,500 billion lire last year, or 8.1 per cent of GDP) are now the largest component of the budget deficit. However, if the primary deficit were to be eliminated, domestic interest rates could come down more into line with those prevailing on international markets. This would reduce the cost of the debt, which consists largely of floating rate securities, and move us towards the virtuous circle in which the average yield on the public debt lies below the growth rate of the economy.

3. The possibility of setting in motion a positive interaction between the reduction of the primary deficit and the management of the public debt was demonstrated by the brief experience of last October and November. At the end of September the Government committed itself to resolute action aimed at balancing the public finances. The budget strategy for 1989 was made to depend on the stricter control of expenditure on an accruals basis and linked to the medium-term rehabilitation plan. The financial market and savers, who in the preceding months had been wary of securities with maturities exceeding one year, gave credence to these intentions by heavily subscribing fixed rate securities with maturities of up to five years and with issue yields declining.

4. This recovery of confidence was first dampened by the disappointing budget outturn for 1988, which resulted in a deficit about 6,000 billion lire larger than had been projected at the

end of September. Confidence was further sapped by a series of measures and actions that, whatever their individual merits, were not consonant with a programme unequivocally aimed at bringing order to the public finances.

Statements by the economic ministers to this Committee and elsewhere have provided both figures and interpretations of the state of the public finances. I shall therefore refer only to the key data and then turn to matters of more direct concern to the central bank.

The state sector borrowing requirement increased in 1988 by about 10,000 billion lire, i.e. from 114 to 124 trillion, while in relation to GDP it remained almost unchanged at 11.5 per cent. The primary deficit, which according to the Government's economic and financial planning document was to have fallen from 37.4 trillion lire to around 30.0 trillion, amounted to 36.4 trillion, declining from 3.8 to 3.4 per cent of GDP.

The failure to achieve the objectives for 1988 was due to expenditure. It is, of course, difficult to forecast the cash outlays of the state sector, since they depend to no small extent on when the massive appropriations approved in earlier years are actually disbursed. But it is also true that corrective action on spending fell short of original plans, which in 1988 called for economies approximately equivalent in magnitude to the proceeds of new revenue-raising measures. The only spending cuts enacted were those concerning medicinal assistance and disability pensions. Expenditures increased — and will rise further this year and in those following — as a result of both the new labour contract covering the school system and improved social benefits, partly enacted in earlier years. Interest payments also contributed to the rise in expenditure, chiefly because of the growth of the debt and the greater recourse to Treasury bills.

Accordingly, the containment of the deficit continued to depend on action on the revenue side. Three sets of measures, enacted at the start of the year, in May and in July, increased revenues by about 9.0 trillion lire. Once again, part of the additional revenue came from measures having transitory effects, such as earlier payment of VAT and higher preliminary payments of income taxes.

5. In 1988 a golden opportunity was lost. The strength of the international economy made last year one of the best in Italy's recent history, with GDP growing by close on 4 per cent. This increase, the largest in the eighties, was fueled by investment and export demand. The downward trend of industrial employment was reversed, while employment in services continued to expand. The unemployment rate stopped rising, despite the further growth of the labour force.

Consumer price inflation, taken as an average for the year, came to 5 per cent, resulting in a slight narrowing of the differential between Italy and the other major industrial economies.

With the balance of payments benefiting from lower oil prices, the current account recorded a moderate deficit for the year, corresponding to about 0.5 per cent of GDP. Substantial capital inflows, evidence of international investors' interest in Italy's growing and financially more open economy, swelled our foreign exchange reserves.

These results show what a great opportunity was available to fiscal policy in 1988. Effective measures to correct the budget deficit could have been taken at minimal cost in terms of output, and such measures would have had a stabilizing effect on the economy, thus favouring further sustained growth.

6. The current state, underlying trends and controllability of the public finances cannot fail to be a source of concern, and it is the Bank of Italy's duty to bring its views to the attention of Parliament.

The forces expanding public expenditure, which continued to act in 1988, are still at work, and unless decisive measures are taken they will become stronger. The budget strategy embodied in the Finance Law for 1989 and the accompanying legislation will not suffice to keep the budget deficit within the limit of 117.35 trillion lire laid down in the Finance Law itself.

Important steps have been taken to increase tax and social security revenues: official estimates put the additional income at around 10 trillion lire. But expenditure is being fueled by the application of the new index for linking pensions to real wages, the recent provisions raising a number of social benefits and the costs associated with the renewal of labour contracts. There are a number of danger spots in the original estimates: the financing of INPS, health service expenditure, the renewal of wage agreements in sectors other than the school system and the burden of interest payments. In the longer term, the mechanisms that determine welfare and health service outlays will combine with demographic trends to produce an unsustainable expenditure burden.

Details of numerous aspects of the recent agreement with the trade unions remain to be settled. The difficulty of assessing each item's budgetary impact in coming years, in many cases necessarily on a probabilistic basis, only increases the market's uncertainty as to the congruence of the overall framework. These doubts are further exacerbated by the introduction of an automatic price-linked mechanism for the elimination of fiscal drag. The legitimate goal of attenuating the distortions in the distribution of income is thus ensured by reducing the flexibility which, in the interest of everybody, is a basic requirement of economic policy.

7. There is an ever more pressing need to put fiscal policy on a new course and thus win back the confidence of the financial markets.

In May 1984 the Bank of Italy, drawing attention once again to the importance of rehabilitating the public finances, outlined the cardinal points of a plan to reduce the deficit by operating on both income and expenditure.

In a recent document that has been widely endorsed, the Treasury Minister indicated the areas to be tackled and laid down a tight timetable for action. There is an especially urgent need for specific implementing measures of immediate effect set within a comprehensive longer-term framework, which the agreement with the unions also explicitly foresees. It is absolutely essential that the "tough" reforms — called for repeatedly in many quarters — be put in hand without delay, in the knowledge that the present trends will lead inevitably to a loss of control over public expenditure.

There are no alternatives — least of all on the monetary policy front. Monetary policy can and must aim to support a rehabilitation programme based on fiscal policy; it cannot be a substitute for such a programme, since the instruments it can deploy are not suitable. Their use in the absence of an appropriate fiscal policy can avoid or attenuate crises, but only at the cost of increasing the financial burden — in other words, by aggravating the very problem they were meant to solve; namely the budget deficit and the public debt.

It must be added that the problems with the public sector are not only quantitative and financial; they also involve questions of efficiency, which are of major importance in view of their direct and indirect effects on the whole economy.

8. With the legislation in force today, the budget deficit for 1989 will overshoot the target by a wide margin; the experts from the IMF who recently visited Italy estimated the outturn at over 130 trillion lire.

Failure to curb the deficit and to bring it back on target will jeopardize both the balance of payments and price stability, and consequently narrow the scope for economic growth.

The balance of payments on current account is bound to be affected in 1989 by the less favourable conditions in the oil market. This deterioration would be accentuated if the domestic cycle were to diverge from that prevailing abroad.

The recent G-7 meeting confirmed the resolve of the industrial countries to use both fiscal and monetary policies to combat the resurgence of inflation, even where its pace is modest, as in Germany and Japan. The consequent slowdown of growth is considered necessary to ensure its continuity.

The Italian economy has now entered its sixth consecutive year of growth, after expanding very strongly last year, when the increase in domestic demand exceeded 4 per cent. The larger trade deficit was accompanied by a substantial running down of stocks. The rate of capacity utilization is high in several sectors of industry.

The latest indicators continue to point to rapid growth in domestic demand. Household consumption is still growing strongly, partly as a result of the wealth effects generated by the expansion of the public debt.

Unit labour costs are accelerating. Productivity gains, after their exceptional performance in 1987, are now offsetting less of the increase in per capita labour costs, which last year continued to rise at close to the 1987 rate of around 8 per cent.

Exchange rate policy will not be used to provide accommodating solutions, which would lead to inflation. With capital mobility on the increase, fiscal policy is the most suitable instrument, to an even greater extent than in the past, for regulating domestic demand by acting selectively to curb consumption without discouraging investment.

Keeping the external current account in reasonable balance is also of special importance in view of the now imminent deadline of July 1990, when freedom of capital movements will be extended to bank deposits and short-term securities. If steps are not taken immediately to start restoring the public finances to a sound footing, we risk arriving at that appointment with a double handicap: a huge budget deficit and a substantial trade deficit.

9. Above all, domestic demand needs to be firmly controlled in order to check the resurgence of inflationary pressures.

During 1988 signs of an acceleration of inflation emerged. The rise in manufacturing industry's unit variable costs speeded up, in the wake of the increases in the prices of foreign inputs. The prices of domestic inputs also rose faster than in 1987. Despite the strength of demand, producer prices rose less than costs and profit margins narrowed slightly. The larger volume of sales nonetheless kept profits at a high level.

Measured by the cost-of-living index, the twelve-month rate of inflation remained below 5 per cent throughout the first ten months of last year. In November and December the index rose by a total of 1.2 per cent, which took the twelve-month rate to 5.5 per cent, the highest figure in over two years. In January of this year the rate rose to 5.7 per cent, and the increase reflected only in part the effect on final prices of the rise in VAT rates.

This rekindling of inflation must be stamped out immediately. The conditions exist to ensure that the level reached in the winter months is a peak, to be followed by a slowdown during the year. But this will require an easing of the pressure exerted by consumer demand and careful handling of wage negotiations in the public and the private sectors.

10. Not only do the present imbalances in the public finances involve a waste of resources that depresses long-term growth but they also threaten to grow larger in a perverse spiral, and they are liable to interact negatively with any worsening of the external accounts or inflation. The risk must be forestalled through a rigorous fiscal policy. Such a course is both required and made feasible by the structural and cyclical situation of the economy.

Monetary conditions in the other major industrial countries have been progressively tightened. The restrictive stance adopted with the aim of blocking the resurgence of inflationary pressures has caused a general rise in short-term interest rates. Among Italy's partners this rise has not spread to the long end of the market, since operators have interpreted it as evidence that policy will be geared to maintaining stability, initially by way of monetary measures and in the longer term through the implementation of sound fiscal policies.

In Italy, the shape of the yield curve and the public's weak propensity to acquire longer-term securities reflect widespread concern about the development of the public finances. To bring this pattern of expectations into line with that of the other industrial countries, the plan to rehabilitate the public finances will have to be made credible and translated into action.

11. I hope I have made my position clear. I have stressed the limits of monetary policy in dealing with the pre-eminent problem, the restoration of the public finances to a sound footing.

Nevertheless, faced with the danger of a rekindling of inflation, the Bank of Italy has taken and will continue to take action.

Monetary policy has already been set on an anti-inflationary course with tight control over bank liquidity. Since last summer the central bank has intervened continuously in the money market at high rates of interest. The growth of both monetary base and M2 has been kept at around 8 per cent, in line with the targets for 1988 and below the growth rate of nominal GDP. More recently, the anti-inflationary action has also involved keeping the lira strong on foreign exchange markets, albeit with appropriate fluctuations.

The Bank of Italy is well aware of the costs that a further tightening of monetary policy would entail, both for the government, through an increase in the interest payable on the public debt, and for industry, as a result of higher interest rates and, with today's freedom of capital movements, the greater restraint likely to be exerted by the exchange rate.

This awareness nonetheless cannot lead the Bank to neglect its institutional and moral duty to take whatever action may be necessary to maintain stability.

Nobody can have forgotten the damage caused by the severe inflation of only a few years ago, or how it put not only our economy but the whole social fabric in jeopardy. The curbing of that inflation has enabled us to reunite ourselves with the principal industrial countries and to play an active role in promoting a plan for Europe in which monetary stability in every member state is an indispensable prerequisite.

Table 1

The borrowing requirement, interest payments and debt of the state sector (1)

	Borrowing requirement (bn lire)	As a % of GDP	Interest payments (bn lire)	As a % of GDP	Borrowing requirement excluding interest (bn lire)	As a % of GDP	Face value of debt at 31.12.1988 (bn lire)	As a % of GDP
1980	35,886	9.3	19,235	5.0	16,651	4.3	212,671	55.1
1981	49,596	10.7	27,328	5.9	22,268	4.8	267,755	57.8
1982	70,789	13.0	38,914	7.1	31,875	5.8	342,271	62.8
1983	88,260	13.9	47,105	7.4	41,155	6.5	433,742	68.5
1984	95,695	13.1	57,579	7.9	38,116	5.2	532,500	73.2
1985	110,036	13.5	63,558	7.8	46,478	5.7	657,471	80.6
1986	109,557	12.1	73,180	8.1	36,377	4.0	768,095	85.1
			(72,861)	(8.1)	(36,696)	(4.1)		
1987	113,659	11.6	76,262	7.8	37,397	3.8	885,217	90.1
			(74,452)	(7.6)	(39,207)	(4.0)		
1988	123,855	11.5	87,500	8.1	36,355	3.4	1,011,000	94.2
			(83,500)	(7.8)	(40,355)	(3.7)		

(1) The figures in brackets are the interest paid and the borrowing requirement excluding interest, net of the revenue from the withholding tax on income from government securities.

Table 2

Financing of the state sector borrowing requirement

	1983	1984	1985	1986	1987	1988 (4)
			(billions of lire)			
Borrowing requirement	88,260	95,695	122,627	110,163	114,212	124,651
(net of settlements of past debts)	(88,260)	(95,695)	(110,036)	(109,557)	(113,659)	(123,855)
Financing						
Securities held by the market (1)	74,830	75,431	72,196	87,463	84,236	103,054
of which: Treasury bills in lire and ECUs	*(7,315)*	*(19,134)*	*(– 1,837)*	*(8,295)*	*(31,997)*	*(47,581)*
medium and long-term securities	*(67,515)*	*(56,297)*	*(74,033)*	*(79,168)*	*(52,239)*	*(55,473)*
Securities issued to fund debts	—	—	10,403	—	421	732
PO deposits and foreign borrowing (2)	8,916	10,237	12,509	11,706	20,315	17,845
Monetary base financing	4,514	10,027	27,519	10,994	9,240	3,020
of which: Treasury BI c/c and special advances (3)	*(– 622)*	*(10,554)*	*(6,340)*	*(4,525)*	*(9,274)*	*(4,331)*
			(percentage composition)			
Borrowing requirement	100.0	100.0	100.0	100.0	100.0	100.0
Financing						
Securities held by the market (1)	84.8	78.8	58.9	79.4	73.7	82.7
of which: Treasury bills in lire and ECUs	*(8.3)*	*(20.0)*	*(– 1.5)*	*(7.5)*	*(28.0)*	*(38.2)*
medium and long-term securities	*(76.5)*	*(58.8)*	*(60.4)*	*(71.9)*	*(45.7)*	*(44.5)*
Securities issued to fund debts	—	—	8.5	—	0.4	0.6
PO deposits and foreign borrowings (2)	10.1	10.7	10.2	10.6	17.8	14.3
Monetary base financing	5.1	10.5	22.4	10.0	8.1	2.4
of which: Treasury BI c/c and special advances (3)	*(– 0.7)*	*(11.0)*	*(5.2)*	*(4.1)*	*(8.1)*	*(3.5)*

(1) Excludes Bank of Italy sales of securities to banks in connection with advances granted under the Ministerial Decree of 27 September 1974. — (2) Includes sundry minor items. — (3) A special advance of 8,000 billion lire was granted in 1983 and repaid in 1984. — (4) Provisional and partly estimated.

Table 3

The public debt (1)

(face value; end-of-period amounts)

	1980	1981	1982	1983	1984	1985	1986	1987	1988 (3)
				(amounts in billions of lire)					
Treasury bills in lire and ECUs	72,764	106,456	139,481	150,442	159,332	172,472	182,243	209,978	252,500
Medium and long-term securities	77,788	85,449	109,786	180,269	244,259	340,044	427,135	483,717	542,600
of which: Treasury bonds	*17,102*	*21,024*	*19,354*	*23,109*	*31,778*	*36,003*	*70,761*	*83,911*	*143,750*
Treasury credit certificates	*28,090*	*30,982*	*59,018*	*126,085*	*182,702*	*262,100*	*314,889*	*349,091*	*340,100*
Post Office deposits	33,048	35,639	39,322	44,261	50,626	59,693	70,964	83,843	94,045
Treasury BI c/c and special advances (2)	19,126	25,312	31,910	23,288	41,842	48,182	52,707	61,981	66,312
(overdraft limit on Treasury BI c/c)	(20,595)	(25,331)	(29,620)	(36,757)	(43,124)	(51,142)	(57,761)	(63,082)	(70,653)
Foreign debt	3,433	6,578	9,731	12,545	16,408	18,435	17,618	23,536	28,900
Other debt	22,082	23,696	31,334	44,739	48,416	43,739	42,430	46,927	51,143
Total	**228,240**	**283,130**	**361,564**	**455,543**	**560,883**	**682,564**	**793,096**	**909,983**	**1,035,500**
				(percentage composition)					
Treasury bills in lire and ECUs	31.9	37.6	38.6	33.0	28.4	25.3	23.0	23.1	24.4
Medium and long-term securities	34.1	30.2	30.4	39.6	43.6	49.8	53.9	53.1	52.4
of which: Treasury bonds	*7.5*	*7.4*	*5.4*	*5.1*	*5.7*	*5.3*	*8.9*	*9.2*	*13.9*
Treasury credit certificates	*12.3*	*10.9*	*16.3*	*27.7*	*32.6*	*38.4*	*39.7.*	*38.4*	*32.8*
Post Office deposits	14.5	12.6	10.8	9.7	9.0	8.7	8.9	9.2	9.1
Treasury BI c/c and special advances (2)	8,4	8.9	8.8	5.1	7.5	7.1	6.6	6.8	6.4
Foreign debt	1.5	2.3	2.7	2.8	2.9	2.7	2.2	2.6	2.8
Other debt	9.6	8.4	8.7	9.8	8.6	6.4	5.4	5.2	4.9
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Public debt / GDP (%)	58.5	60.5	66.3	71.9	77.0	83.7	87.9	92.6	96.5

(1) The debt of the public sector comprises that of the state sector (the Treasury, the Deposits and Loans Fund, the Southern Italy Development Agency and the autonomous government agencies) and that of communes and provinces, the social security institutions and other central government bodies. Rounding may give rise to discrepancies. — (2) A special advance of 8,000 billion lire was granted in 1983 and repaid in 1984. — (3) Provisional and partly estimated.

Table 4

Public debt and net borrowing of general government in the major OECD countries

(as a percentage of GDP)

	1980	1981	1982	1983	1984	1985	1986	1987 (1)	1988 (2)
				Public debt					
Italy	58.5	60.5	66.3	71.9	77.0	83.7	87.9	92.6	96.5
US	37.9	37.2	41.3	44.1	45.2	48.4	51.2	51.6	51.3
Japan	52.0	57.0	61.1	66.9	68.4	69.3	69.3	68.6	67.3
Germany	32.5	36.3	39.5	40.9	41.5	42.2	42.4	43.3	44.1
France	24.6	23.9	27.9	29.5	31.8	33.8	35.1	36.7	37.2
UK	54.6	54.7	53.4	53.6	54.9	53.6	52.9	50.4	46.1
Canada	44.7	45.1	50.5	54.5	58.0	63.4	67.2	69.0	69.5
				Net borrowing (3)					
Italy	8.5	11.3	11.3	10.6	11.5	12.5	11.4	10.5	10.2
US	1.5	1.1	4.0	4.9	3.8	4.1	4.4	3.3	2.7
Japan	4.4	3.8	3.6	3.7	2.1	0.8	1.1	0.3	0.2
Germany	2.9	3.7	3.3	2.5	1.9	1.1	1.3	1.8	2.0
France	—	1.9	2.8	3.2	2.8	2.8	2.9	2.4	1.6
UK	3.5	3.9	2.8	3.4	3.8	2.9	3.1	2.0	0.3
Canada	2.8	1.5	6.0	7.0	6.7	7.1	5.5	4.6	3.3

Sources: Based on OECD and EEC data (Bank of Italy and Isco data for Italy).
(1) Partly estimated. — (2) Forecasts. — (3) Net borrowing according to the system of national accounts.

Table 5

Interest rates (1)

	Official discount rate (2)	Average bank rates (3)		12-month Treasury bills (4)	4-year Treasury bonds (5)
		Loans	Deposits		
1986 - Mar.	14.0	17.4	10.2	13.1	13.3
June	12.0	16.9	9.3	11.1	11.8
Sept.	12.0	15.2	8.2	10.2	9.9
Dec.	12.0	14.2	7.8	9.4	9.3
1987 - Mar.	11.5	13.8	7.5	9.1	9.3
June	11.5	13.2	6.9	9.0	9.2
Sept.	12.0	13.4	6.7	9.9	10.4
Dec.	12.0	14.0	6.9	10.2	10.5
1988 - Jan.	12.0	13.7	6.9	9.2	—
Feb.	12.0	13.5	6.7	9.1	10.2
Mar.	12.0	13.4	6.7	9.1	10.0 (*)
Apr.	12.0	13.4	6.7	9.5	10.5
May	12.0	13.2	6.6	9.5	10.6
June	12.0	13.3	6.6	9.4	9.9 (*)
July	12.0	13.5	6.6	9.8	10.8
Aug.	12.5	13.7	6.6	9.9	11.1
Sept.	12.5	13.9	6.6	10.3	11.6
Oct.	12.5	13.9	6.7	10.1	11.6
Nov.	12.5	13.8	6.7	9.9	11.4 (*)
Dec.	12.5	13.7	6.8	9.9	10.6 (*)
1989 - Jan.	12.5			9.9	11.3 (*)

(1) The quarterly data are arithmetic means of the monthly data. — (2) End-of-period data. The official discount rate was changed as follows:
22 March 1986: 14.00
25 April 1986: 13.00
27 May 1986: 12.00
14 March 1987: 11.50
28 August 1987: 12.00
26 August 1988: 12.50
(3) Average rates for the period, calculated on ten-day statistics. The figures for September 1988 are partly estimated. — (4) Auction rates, net of withholding tax; calendar year; compound interest formula. — (5) Yields at issue net of withholding tax. The figures for 1987 refer to 3-year bonds since no 4-year bonds were issued. In the subsequent period the figures with an asterisk refer to 2-year paper (March and June 1988), 3-year paper (December 1988) and 5-year paper (November 1988 and January 1989).

Table 6

Monetary and credit aggregates

(twelve-month rates of growth; end-of-period figures)

	1986	1987	1988 (1)
Bank deposits	8.9	6.8	6.4
Money (M2)	9.4	8.3	7.7
Bank loans	9.6	8.6	17.6
of which: in lire	*8.5*	*7.4*	*16.7*
Credit to the non-state sector	11.4	10.3	15.5
Total domestic credit	15.2	13.1	14.9

(1) Provisional.

Infrastructure and Public Intervention in the South

Introductory address by the Deputy Director General, Antonio Fazio, to a symposium on "Credit Quality and Regional Economic Development" held in Bari, 18 February 1989

1. Writing at the turn of the century, an Italian economist (Toniolo), referring to the role of the state in substituting for market mechanisms, said that "state action in support of the economic progress of society is legitimate whenever spontaneous individual and collective (social) energies are found in practice to be insufficient."

In the light of modern value theory, the spontaneous forces of the market within any given economy may not be capable of making optimal use of the resources available and thus drawing out all their potential for development, because of the inability to foresee the future, or, in more technical terms, because of the absence of futures markets. Consequently, market participants may lack the capacity to take on the relevant risks, in some cases because of their sheer size.

Moreover, the social return on investment can at times be appreciably greater than the private return, as was strongly emphasized by Solow back in the sixties — in a context, one should add, of rapid economic growth.

It will be helpful to bear in mind these points of theory and cultural background as we go on to discuss entrepreneurial initiatives and financing in a region where the productivity of investment may be conditioned by a less than favourable economic environment and where far-reaching and diversified government intervention is to be expected.

2. The reports of the Association for Industrial Development in Southern Italy (SVIMEZ) indicate that in 1987 Southern labour productivity in industry excluding construction was on the average only 82 per cent as high as in the Centre-North. The weakest performance was in textiles, clothing, hides, leather and shoes, at 69 per cent, and the strongest in paper, printing and publishing, at 96 per cent.

The estimates also show that the gap has appreciably widened since the beginning of this decade.

The reasons for this gap can no longer be put down to an insufficiency of productive capital. In fact, the ratio of capital per employee in small firms in comparable industries is higher in the South than in the rest of the country (as shown by calculations by Tresoldi and Siracusano using the Company Accounts Data Service).

3. The problem of the South goes back, in substance, to the time of Italy's unification, and it has been debated for well over a century now. The way it is viewed today, however, can be said to date from the postwar period: that of consolidating a consensus in favour of a mixed economy in which private enterprise can move ahead in an environment propitiously altered by public intervention.

Since then, government programmes have provided for direct action to develop infrastructures and increase social capital as well as for various kinds of subsidies to productive activities.

Programmes and intervention techniques were widely and thoroughly discussed, and the scale and procedures of individual programmes were revised many times. The implementation of the programmes was entrusted to organs of the central government, making it possible to maintain a systematic overview of the individual projects.

In macroeconomic terms, the effects of special intervention policy in the South are reflected in a ratio of investment to output that is several percentage points higher than in the rest of Italy, a deficit on trade in goods and services equivalent to nearly 20 per cent of the South's gross product, and a consequent net inflow of saving from the rest of the country in the form of public and private transfers, lending and direct investment.

The rise in income in the South, and hence in its consumption and living standards, has followed that in the rest of the country — a result which has certainly been affected by the intensified investment effort in the Southern regions.

The North-South employment gap — i.e. the inter-regional difference in the ratio of employment to the labour force — was not great until the start of the seventies, thanks in part to substantial migration from South to North. More recently, owing in part to demographic trends, the gap has widened at an accelerating rate.

4. In the later seventies, against the background of generalized economic difficulties, the creation of self-governing regions through devolution and the inappropriateness of some sectoral investment choices helped to throw existing Southern development strategies into severe crisis, despite their having undergone a profound evolution in the course of their first quarter-century of application. By the start of the present decade, the approaches in question had become subject to serious conceptual and operational uncertainties.

At the national level, the focus of debate was tending to shift towards the problems connected with the opening of Italy's economy, not least the financial sector, to international markets. Concurrently, the state of the public finances was deteriorating. In the last few years, finally, the discussions about European economic integration began to take on increased importance.

5. The passage of Law 64/1986 governing the new forms of state intervention in the South brought a protracted period of legislative uncertainty to a close by reconfirming and indeed augmenting subsidies to private productive enterprises.

The procedure for public works projects has been changed. Proposals are now drawn up by the regional and local authorities and submitted to the central government, whose role is now simply to screen the applications and decide which projects to finance. The new procedure has encountered numerous difficulties in practice, including inefficiency in the drafting of projects, a dispersion of resources on large numbers of small projects, and the absence of proposals for projects embracing more than one region.

Special development assistance to the South is an intermittent supplement to other economic policy measures, with which it sometimes overlaps. The latter include ordinary legislation to provide industrial and employment incentives, partly in the form of substantial funding for the South as well as special reconstruction and development assistance for earthquake-damaged districts.

6. The emphasis on European integration and the transfer of some regulatory powers and financial resources to the EEC, together with the recognition — not always borne in mind in our discussions — that the elimination of disequilibria cannot be entrusted solely to spontaneous market forces, have led the Community to reconsider the problem of regional disparities and to look again for suitable policy measures to overcome at least the most glaring inequalities.

A most interesting study in this regard is "The Contribution of Infrastructure to Regional Development", compiled under the direction of Professor Dieter Biehl by a large working group that included Italian members. Though published relatively recently, the study is based on data up to the end of the seventies. However, as the study deals with information of a structural nature, it seems unlikely that an updating of the data would significantly alter the picture.

The study covered some 140 regions in the ten-member Community prior to the accession of Spain and Portugal. For each one, infrastructure in the broadest sense was surveyed and classified. Transportation infrastructure, for instance, was classified in eight groups and each group subdivided into several types of facility.

Communications infrastructure was divided into three groups and further subdivided into types of installation. Other major types of infrastructure considered were water, gas and electrical power networks; urban, social and cultural infrastructure; and natural endowment.

Altogether the study surveyed and measured nearly 100 different types of infrastructural endowment for each region. The data were collated in indices adjusted for population and geographical area.

The indices show that the regions of Southern Italy are poorly equipped with infrastructure, being only slightly better off on average than those of Ireland and Greece. The regions of the Centre and North of Italy are about at the European average.

A regression analysis of the relation between infrastructural endowment and level of economic development, as measured either by output per inhabitant and per labour force participant or by labour productivity in industry and services, yields a very clear positive correlation. This positive correlation continues to hold even if other causal factors are introduced to explain the level of output, such as the amount of private productive capital, the structure of production and employment and geographical location.

7. The fact that two phenomena are statistically correlated tells us nothing about the causal relationship between them.

The productivity of both labour and the economy, as well as the standard of living itself depend upon infrastructure. It is also true that these can be created, or may already exist, more abundantly in countries or more developed regions where natural and environmental resources are most plentiful. It nonetheless seems an inescapable conclusion that the provision of infrastructure is an essential pre-requisite for economic development.

All types of private economic activity — agriculture, industry and services — require an adequate measure of infrastructure for income and production to grow.

The function of social productivity is based on private capital, including appropriate technology and labour of sufficient quantity and quality. But it depends as well on a complete network of infrastructure: transport, communications, energy and water distribution, together with social and cultural infrastructure. All of these must be available to productive activity and to the population in fairly well-defined amounts for every given set of historical and environmental circumstances.

In other words, there is only limited scope for substitution between the different types of infrastructure, as well as between infrastructural capital and private capital. Thus the production function appears to be shaped by inputs of services, supplied by the various types of capital, in proportions that are somewhat rigidly defined. Beyond certain limits, substitutability appears to be distinctly uneconomical.

8. A large infrastructural network in an underdeveloped environment may be under-utilized. Curiously, this would seem to have been the case in a number of regions of Italy at the end of the seventies. It is nonetheless also true that the infrastructure in place in those regions constituted — and appears to do so still — an obstacle to higher levels of economic activity.

The situation in this regard varies considerably even within the Southern regions and from one type of structure to another. Biehl's study identified Lucania and Molise as being then — as they perhaps still are — the poorest regions in terms of existing infrastructure. With regard to road transport, the picture was on the whole more uniform, though clearer differences emerged in the availability of water and the distribution of gas and electricity.

The results of Biehl's research are confirmed for more recent years in a study made by some of his former Italian collaborators (Bracalente, Di Palma and Mazziotta, 1988). With reference to a sub-aggregate of the infrastructure considered in the broader study, the Southern regions still lag some way behind the typical endowment of the Centre-North regions.

There was much debate during the fifties, between Rosenstein-Rodan, on the one hand, and Hirschman on the other, as to the correct strategy for development: whether to start with massive public investment, which would be followed by private investment, or, vice versa, to meet the demand for infrastructure only as it starts to become more acute.

Without doubt the first of these options can lead to a short-term under-utilization of infrastructure and to a poor allocation of public capital. The second solution, which was implemented as a practical matter, rather than as one of rational economic choice, in some of the large urban agglomerations in the South, has led to shortages and bottlenecks. The public sector's response to these has not only been too late and too little but involved enormous wastage of public and private energies.

9. It would seem necessary at this stage to give renewed consideration to a model of development that envisages the harmonious coexistence of public sector intervention and private initiatives.

The heated debates of the forties and fifties were followed by economic policy measures consistent both with the debates themselves and with each other, but these seem to have been followed in the seventies by a series of less coordinated initiatives and interventions. Many of these were undertaken without any sort of plan — or, rather, any sufficiently comprehensive vision.

Even a cursory examination reveals the contradiction between the uniformity of wages and salaries throughout Italy that followed elimination of the so-called wage pockets at the end of the sixties, and the levels of productivity that are still adversely affected by geographical and environmental considerations and, consequently, subsidized by public finance through lower social security costs.

The large-scale subsidization of private capital investment may appear, on the one hand, to be consistent with a private rate of return on investment much lower than the social rate, but on the other hand it can lead to productive arrangements with a high intensity of capital in regions where labour is abundant.

Law 64/1986 was an attempt to re-establish a unified vision. There remains, however, at least for non-specialists in the field, the need for a better understanding of the model of development and its operation, with the reciprocal relationships among the principal macro-aggregates, which is subsumed from the broad programme of interventions. The relationships between these aggregates and the more economically advanced sectors of the Italian economy and other European and non-European countries need also to be explored.

Perhaps it would be asking too much to have all the variables set forth in balance sheets and models. But the resources for policy intervention in the South are available, and they are not negligible. The special resources contributed by the public sector continue to be flanked by ordinary resources coming from that sector and, one may hopefully presume, by an increasing flow of private resources both from inside and outside the area.

Law 64/1986 has to some extent shifted the emphasis away from agriculture and industry. This seems in keeping with the current trend in all developed economies to concentrate new jobs and value added in the services sector. Many service activities, particularly the more advanced ones, are necessary for a healthy level of productivity both in agriculture and, especially, in industry.

10. Policies that subsidize private capital and labour in order to offset differences in productivity by comparison with other, more dominant, areas of the economy, are in fact underwriting an imbalance. How long they should be expected to go on and with what prospects is not clear.

Any programme of public sector intervention and investment must aim at removing the causes of the imbalance. With regard to some problems it may be possible to ensure that the cost of purposeful and effective investment does not exceed the present value of a fairly long-lasting flow of finance to cover the imbalance.

In considering infrastructural needs, it is increasingly important to think in terms not only of material goods, but also of the availability of, for example, organization and information networks.

The research study presented here today is aimed at deepening our knowledge of the relationships between the financial system and productive activity in the South. This presupposes the activation of entrepreneurial forces able to combine the factors of production freely with a view to supplying both traditional and innovative goods and services for use both within the area and outside it.

The function of the banking system in relation to this entrepreneurial activity is to ensure a correct assessment of the costs and profitability of the projects under consideration. Through the granting of credit, it also acts as a bridge linking currently available information regarding quantities, prices and costs with the future prospects for existing resources.

Thus private activities and special public sector interventions are being devoted to solving similar problems, in strictly complementary fields and with the same objectives.

We now look forward to hearing more about the results of this study and to knowing what we can learn from it.

Appendix

Statistical tables

- Unless indicated otherwise, the figures in the tables have been computed by the Bank of Italy.
- Symbols and conventions:
  - — the phenomenon in question does not occur, or does occur and is observed but did not occur in this case.
  - .... the phenomenon occurs but its value is not known.
  - .. the value is known but is less than the minimum figure considered significant.
  - ( ) provisional.
  - *( )* estimated.

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)*			
1983	3.6	3.2	1.9	0.7	3.9	1.1	3.2
1984	6.8	5.1	3.3	1.3	1.8	3.2	6.3
1985	3.4	4.9	1.9	1.7	3.6	2.9	4.6
1986	2.8	2.4	2.3	2.1	3.3	2.9	3.2
1987	3.4	4.2	1.8	2.3	4.2	3.1	4.0
1988	3.8	....	3.4	....	....	....	....
1987 — 3rd qtr.	1.1	2.2	1.4	0.8	2.0	0.9	1.5
4th "	1.5	1.7	0.8	0.8	−0.1	0.3	1.6
1988 — 1st qtr.	0.8	2.4	1.4	1.1	0.9	1.3	0.7
2nd "	0.7	−0.8	−0.2	0.4	1.0	0.6	1.0
3rd "	0.6	2.2	1.3	0.8	−2.3	....	0.7
4th "	0.5	....	..	....	....	....	....
				GNP deflator (1) *(% changes on previous period; seasonally adjusted data)*			
1983	3.9	0.8	3.2	9.8	5.2	15.0	5.1
1984	3.7	1.2	2.0	7.4	4.8	11.4	3.1
1985	2.9	1.4	2.3	5.9	5.6	8.8	2.9
1986	2.7	1.9	3.1	5.0	3.6	7.6	2.5
1987	3.3	−0.2	2.0	2.5	4.8	5.6	4.4
1988	3.3	....	....	....	....	....	....
1987 — 3rd qtr.	0.8	0.5	—	0.7	2.0	1.0	0.6
4th "	0.6	−0.4	0.6	0.6	1.2	1.7	1.2
1988 — 1st qtr.	0.4	0.3	0.8	0.7	0.6	1.3	1.0
2nd "	1.4	−0.3	0.4	0.9	2.3	0.8	0.7
3rd "	1.1	0.7	0.2	....	2.8	....	1.3
4th "	1.2	....	....	....	....	....	....
				Current account balance (2) *(billions of dollars)*			
1983	−46.6	20.8	5.4	−5.2	5.7	1.5	2.5
1984	−107.0	35.0	9.7	−0.9	2.5	−2.5	2.0
1985	−115.1	49.2	17.0	..	4.7	−3.7	−1.4
1986	−138.8	85.8	39.7	3.0	−0.3	2.5	−7.5
1987	−154.0	87.0	44.9	−5.3	−4.1	(−1.0)	−8.0
1988	*(−132.0)*	79.5	48.4	....	−26.4	*(−4.2)*	....
1987 — 3rd qtr.	−42.0	21.2	7.8	−1.0	−1.9	(−1.2)	−0.9
4th "	−33.5	22.1	15.3	−1.5	−1.9	(−1.2)	−2.5
1988 — 1st qtr.	−39.8	18.3	8.6	−0.5	−5.6	(−1.8)	−3.8
2nd "	−33.7	18.6	14.7	−0.3	−6.4	(0.3)	−1.1
3rd "	−30.9	19.1	8.7	−0.4	−6.3	(−2.6)	−0.5
4th "	*(−27.6)*	23.5	*(16.4)*	....	*(−8.1)*	*(−0.1)*	....

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.

Industrial production

(% changes on previous period: seasonally adjusted data)

	US	Japan	Germany	France	UK	Italy	Canada
1983	5.9	3.2	2.2	0.1	3.7	−3.2	6.5
1984	11.5	9.3	3.0	1.9	0.3	3.4	13.6
1985	1.6	3.7	4.9	0.5	5.3	1.2	5.2
1986	1.1	−0.2	1.8	0.9	2.3	2.7	−0.1
1987	3.8	3.4	0.2	2.1	3.9	4.0	5.2
1988	5.7	9.3	4.0	....	....	....	....
1986 — 4th qtr.	1.0	−0.1	−0.9	−0.7	0.3	1.6	1.2
1987 — 1st qtr.	0.7	1.0	−1.2	−0.3	0.6	0.2	1.5
2nd "	1.1	0.2	1.9	2.6	1.5	2.6	1.6
3rd "	2.1	3.3	—	0.3	1.5	−0.4	2.6
4th "	1.7	3.4	1.2	1.0	1.3	2.0	2.5
1988 — 1st qtr.	1.0	3.2	0.6	0.9	−0.3	1.8	1.2
2nd "	1.1	−0.2	0.9	0.9	1.7	−0.7	1.1
3rd "	1.7	2.2	2.1	2.8	1.0	2.0	0.8
4th "	1.1	2.7	0.6	....	....	....	....
1987 — Dec.	0.5	1.2	—	1.0	0.5	−0.8	0.3
1988 — Jan.	0.4	0.4	—	—	0.2	6.0	0.8
Feb.	—	2.7	0.9	—	−1.8	−4.1	−0.3
Mar.	0.2	0.2	—	0.9	1.7	−0.9	0.4
Apr.	0.6	−0.8	−0.9	−0.9	0.7	2.9	0.2
May	0.5	−2.4	0.9	0.9	0.7	−2.9	1.2
June	0.3	3.3	2.7	1.9	0.3	1.2	—
July	1.1	−1.3	−3.5	0.9	0.2	2.9	−0.2
Aug.	0.3	2.8	6.4	—	0.4	−1.5	1.0
Sept.	0.1	0.5	−1.7	0.9	0.3	0.9	—
Oct.	0.5	−0.6	−0.9	−3.6	−0.3	0.7	−0.3
Nov.	0.4	2.8	0.6	3.8	−0.1	1.7	−0.3
Dec.	0.3	0.5	0.7	....	....	....	....

Sources: National bulletins and OECD.

Table a3

Consumer prices

(% changes on corresponding period)

	US	Japan	Germany	France	UK	Italy	Canada
1983	3.2	1.8	3.3	9.5	4.7	14.7	5.8
1984	4.3	2.3	2.4	7.7	4.7	10.8	4.3
1985	3.5	2.0	2.2	5.8	6.3	9.2	3.9
1986	1.9	0.4	−0.2	2.5	3.3	5.8	4.2
1987	3.7	−0.2	0.3	3.3	4.1	4.8	4.4
1988	4.1	0.5	1.2	2.7	5.0	5.0	4.0
1986 — 4th qtr.	1.3	−0.4	−1.0	2.1	3.3	4.4	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	4.4	4.6
3rd "	4.2	0.1	0.6	3.4	4.4	4.9	4.6
4th "	4.5	0.4	1.0	3.2	4.1	5.4	4.2
1988 — 1st qtr.	4.0	0.6	0.9	2.4	3.3	5.1	4.1
2nd "	3.9	..	1.0	2.5	4.3	5.0	4.0
3rd "	4.1	0.5	1.2	2.8	5.5	5.0	4.0
4th "	4.3	1.0	1.5	3.0	6.6	5.1	4.1
1987 — Dec.	4.4	0.4	1.0	3.1	3.6	5.2	4.2
1988 — Jan.	4.1	0.7	0.7	2.4	3.3	5.2	4.1
Feb.	4.0	0.6	0.9	2.4	3.3	5.0	4.1
Mar.	4.0	0.4	1.0	2.5	3.4	5.2	4.1
Apr.	3.9	—	1.0	2.5	4.0	5.1	4.0
May.	3.9	−0.1	1.1	2.5	4.3	5.0	4.1
June	4.0	—	1.1	2.6	4.7	5.0	3.9
July	4.1	0.4	1.0	2.7	4.9	5.0	3.8
Aug.	4.0	0.6	1.2	2.8	5.8	5.0	4.0
Sept.	4.2	0.5	1.4	3.0	5.9	4.9	4.1
Oct.	4.3	1.0	1.3	3.0	6.5	4.8	4.3
Nov.	4.3	1.0	1.6	3.0	6.5	5.1	4.1
Dec.	4.4	1.0	1.6	3.1	6.8	5.4	4.0
1989 — Jan.	....	....	2.5	....	....	....	....

Sources: National bulletins and OECD.

Table a4

Wholesale prices

(% changes on corresponding period)

	US	Japan	Germany (1)	France (1)	UK (1)	Italy	Canada (1)
1983	1.3	−2.2	1.5	9.1	5.5	9.8	3.5
1984	2.4	−0.4	2.8	8.9	6.1	10.4	4.5
1985	−0.6	−1.0	2.0	4.2	5.6	7.3	2.8
1986	−2.8	−9.3	−2.4	−3.3	4.5	−0.9	0.8
1987	2.5	−3.6	−0.4	0.5	3.8	2.7	2.7
1988	4.0	−1.0	1.7	....	4.5	4.7	....
1986 — 4th qtr.	−3.5	−9.0	−3.0	−3.3	4.2	−2.4	0.3
1987 — 1st qtr.	−0.9	−7.8	−2.1	−2.0	4.1	−0.4	−0.2
2nd "	2.7	−5.1	−0.7	—	3.5	2.4	2.7
3rd "	3.9	−0.8	0.3	1.4	3.6	4.1	3.9
4th "	4.5	−0.4	0.9	2.7	3.9	4.6	4.4
1988 — 1st qtr.	3.9	−1.1	0.8	3.4	3.9	4.1	4.9
2nd "	4.1	−0.4	1.4	3.4	4.3	4.4	4.6
3rd "	4.0	−0.8	1.9	5.3	4.9	4.9	3.9
4th "	3.9	−1.5	2.7	....	4.9	5.4	....
1987 — Dec.	4.5	−1.1	1.0	....	3.9	4.7	4.9
1988 — Jan.	3.6	−1.1	0.6	....	3.8	3.9	5.1
Feb.	4.5	−1.1	1.0	....	3.9	4.2	4.8
Mar.	3.5	−1.1	1.0	....	4.0	4.3	4.9
Apr.	4.4	—	1.1	....	4.2	4.4	4.6
May	4.4	—	1.3	....	4.2	4.5	4.4
June	3.5	−1.1	1.7	....	4.5	4.5	4.9
July	4.3	—	1.6	....	4.8	4.7	4.2
Aug.	3.4	−1.1	1.9	....	5.0	5.0	3.9
Sept.	4.3	−1.1	2.2	....	5.0	5.0	3.7
Oct.	3.4	−2.3	2.1	....	5.0	5.0	3.4
Nov.	4.3	−1.1	2.4	....	5.0	5.5	3.3
Dec.	4.0	−1.1	3.5	....	4.9	5.9	....
1989 — Jan.	4.4	−0.1	....	....	....	....	....

Sources: 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)*			
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 — Dec.	6.0	2.5	2.5	9.5	8.5	12.0	8.7
1988 — Jan.	6.0	2.5	2.5	9.5	8.5	12.0	8.6
Feb.	6.0	2.5	2.5	9.5	9.0	12.0	8.6
Mar.	6.0	2.5	2.5	9.5	8.5	12.0	8.8
Apr.	6.0	2.5	2.5	9.5	8.0	12.0	9.1
May	6.0	2.5	2.5	9.5	7.5	12.0	9.1
June	6.0	2.5	2.5	9.5	9.0	12.0	9.4
July	6.0	2.5	3.0	9.5	10.5	12.0	9.5
Aug.	6.5	2.5	3.5	9.5	12.0	12.5	10.0
Sept.	6.5	2.5	3.5	9.5	12.0	12.5	10.5
Oct.	6.5	2.5	3.5	9.5	12.0	12.5	10.5
Nov.	6.5	2.5	3.5	9.5	13.0	12.5	10.8
Dec.	6.5	2.5	3.5	9.5	13.0	12.5	11.2
1989 — Jan.	6.5	2.5	4.0	9.5	13.0	12.5	11.5
				Money market rates (2) *(period averages)*			
1984	9.5	6.3	6.0	11.7	9.9	15.3	9.8
1985	7.5	6.6	5.4	9.9	12.2	13.7	9.2
1986	6.0	5.0	4.6	7.7	10.9	11.5	8.2
1987	5.8	3.9	4.0	8.3	9.7	10.7	8.4
1988	6.7	4.0	4.3	7.9	10.3	11.1	10.8
1988 — Jan.	5.8	3.8	3.4	8.3	9.2	11.4	8.4
Feb.	5.7	3.8	3.3	7.7	9.3	10.8	8.3
Mar.	5.7	3.8	3.4	8.0	8.9	10.8	8.5
Apr.	5.9	3.8	3.4	8.1	8.3	10.8	8.9
May	6.3	3.9	3.5	7.9	8.0	10.8	8.9
June	6.5	3.9	3.9	7.4	8.9	10.6	9.2
July	6.7	4.0	4.9	7.4	10.5	11.1	9.3
Aug.	7.1	4.1	5.3	7.7	11.4	11.1	10.0
Sept.	7.2	4.2	5.0	8.0	12.1	11.4	10.3
Oct.	7.3	4.3	5.0	8.0	12.0	11.3	10.3
Nov.	7.8	4.4	4.9	8.1	12.3	11.2	10.3
Dec.	8.1	4.5	5.3	8.5	13.1	11.4	10.8
1989 — Jan.	8.3	4.4	5.6	8.7	13.1	11.5	....

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.

Long-term interest rates and share price indices

(period averages)

	US	Japan	Germany	France	UK	Italy	Canada
				Bond rates (1)			
1984	11.9	6.8	7.8	12.5	10.7	15.6	12.8
1985	9.6	6.3	6.9	10.9	10.6	13.7	11.0
1986	7.1	4.9	5.9	8.4	9.9	11.5	9.5
1987	7.7	4.2	5.8	9.4	9.5	10.6	9.9
1988	8.3	4.3	6.1	9.1	9.5	10.5	10.2
1988 — Jan.	7.9	4.1	6.0	9.9	9.6	10.3	9.7
Feb.	7.4	4.1	5.8	9.1	9.4	10.3	9.6
Mar.	7.5	4.0	5.7	9.2	9.1	10.3	10.1
Apr.	7.8	3.9	5.8	9.2	9.1	10.4	10.4
May	8.2	4.2	6.1	9.2	9.3	10.5	10.4
June	8.2	4.5	6.1	8.9	9.3	10.5	10.1
July	8.4	4.5	6.4	8.9	9.5	10.6	10.4
Aug.	8.8	4.8	6.5	9.2	9.5	10.7	10.6
Sept.	8.6	4.6	6.3	9.0	9.8	10.9	10.5
Oct.	8.4	4.3	6.2	8.7	9.5	10.7	10.1
Nov.	8.7	4.2	6.1	8.7	9.6	10.6	10.3
Dec.	9.1	4.2	6.2	8.7	9.8	10.7	10.4
1989 — Jan.	9.2	....	6.5	8.5	9.5	10.6	....
				Share price indices (1975 = 100) (2)			
1984	188.7	261.0	163.5	234.2	388.6	200.8	234.1
1985	219.4	318.8	222.6	298.2	474.6	335.7	271.2
1986	277.4	424.4	308.2	490.3	587.4	781.5	301.1
1987	336.4	627.7	267.8	543.9	766.9	753.9	356.8
1988	311.9	683.7	220.8	461.4	699.5	621.2	330.3
1988 — Jan.	294.1	584.0	190.2	367.3	677.3	556.3	305.7
Feb.	303.1	636.5	200.0	389.2	673.5	532.4	320.4
Mar.	311.9	677.4	212.0	403.4	697.1	601.2	331.4
Apr.	308.3	695.8	210.5	409.4	690.2	611.1	334.0
May	300.4	696.5	203.1	428.3	691.7	573.3	324.9
June	318.7	702.6	217.6	475.8	719.8	594.2	344.2
July	316.1	698.8	224.9	487.3	725.2	637.2	337.7
Aug.	309.5	702.9	223.9	481.8	713.1	664.0	328.6
Sept.	312.5	680.0	229.6	488.9	687.3	626.4	328.4
Oct.	325.6	680.8	244.4	523.6	719.4	688.6	339.6
Nov.	318.2	711.6	243.7	536.8	712.8	690.2	329.5
Dec.	324.7	738.1	249.4	545.3	687.2	679.8	339.0
1989 — Jan.	335.1	781.4	258.9	596.3	733.3	691.4	....

Sources: National bulletins, IMF, BIS and OECD.
(1) Rates on government bonds: for Italy, net of tax. – (2) Italy: 1958 = 100.

Table a7

Interest rates on international markets and US dollar premium/discount

(period averages)

	US dollar	Japanese yen	Deutsche-mark	Pound sterling	Lira	US dollar	Japanese yen	Deutsche-mark	Pound sterling	Lira
	Rates on 3-month Eurodeposits					**Rates on 12-month Eurodeposits**				
1984	10.74	6.27	5.71	9.88	15.62	11.60	6.40	6.17	10.24	16.56
1985	8.28	6.55	5.25	12.16	13.77	8.97	6.42	5.47	11.61	14.24
1986	6.71	5.03	4.51	10.88	12.69	6.79	4.91	4.55	10.63	12.05
1987	7.07	4.15	3.92	9.63	10.79	7.49	4.20	4.13	9.74	11.03
1988	7.85	4.40	4.18	10.25	10.79	8.27	4.49	4.48	10.55	11.18
1988 — Mar.	6.74	4.26	3.30	8.82	10.69	7.27	4.24	3.53	9.26	10.92
Apr.	7.07	4.02	3.31	8.22	10.44	7.65	4.23	3.61	8.87	10.88
May	7.41	4.08	3.44	7.97	10.14	8.06	4.29	3.92	8.95	10.85
June	7.61	4.23	3.79	8.85	10.20	8.16	4.47	4.23	9.57	10.90
July	8.07	4.65	4.75	10.44	10.77	8.53	4.83	5.09	10.68	11.30
Aug.	8.48	4.76	5.14	11.32	10.79	9.01	4.88	5.56	11.40	11.47
Sept.	8.31	4.96	4.89	12.07	11.24	8.77	4.98	5.29	12.10	11.39
Oct.	8.49	4.62	4.92	11.92	10.95	8.68	4.61	5.12	11.69	11.19
Nov.	8.91	4.38	4.81	12.25	11.43	9.00	4.42	4.94	12.14	11.41
Dec.	9.29	4.46	5.27	13.05	11.91	9.41	4.54	5.35	12.85	11.91
1989 — Jan.	9.26	4.49	5.59	13.08	11.65	9.62	4.62	5.85	12.65	11.92
	3-month US dollar premium (−)/discount (+)					**12-month US dollar premium (−)/discount (+)**				
1984		4.46	5.03	0.86	−4.88		5.20	5.43	1.36	−4.96
1985		1.73	3.03	−3.88	−5.49		2.55	3.50	−2.64	−5.27
1986		1.68	2.20	−4.17	−5.98		1.88	2.24	−3.84	−5.26
1987		2.92	3.15	−2.57	−3.72		3.29	3.36	−2.25	−3.54
1988		3.46	3.67	−2.39	−2.94		3.78	3.79	−2.27	−2.91
1988 — Mar.		2.48	3.44	−2.08	−3.95		3.03	3.74	−1.99	−3.65
Apr.		3.05	3.76	−1.15	−3.37		3.42	4.04	−1.22	−3.23
May		3.33	3.97	−0.56	−2.73		3.77	4.14	−0.89	−2.79
June		3.38	3.82	−1.24	−2.59		3.69	3.93	−1.41	−2.74
July		3.42	3.32	−2.37	−2.70		3.70	3.44	−2.15	−2.77
Aug.		3.72	3.34	−2.84	−2.31		4.13	3.45	−2.39	−2.46
Sept.		3.35	3.42	−3.76	−2.93		3.79	3.48	−3.33	−2.62
Oct.		3.87	3.57	−3.43	−2.46		4.07	3.56	−3.01	−2.51
Nov.		4.53	4.10	−3.34	−2.52		4.58	4.06	−3.14	−2.41
Dec.		4.83	4.02	−3.76	−2.62		4.87	4.06	−3.44	−2.50
1989 — Jan.		4.77	3.67	−3.82	−2.39		5.00	3.77	−3.03	−2.30

Source: BIS.

Table a8

Lira exchange rates and the price of gold

(period averages)

	Lire per unit of currency								Gold (dollars per ounce) (1)
	US dollar	Japanese yen	Deutsche-mark	French franc	Pound sterling	Swiss franc	SDR	ECU	
1983	1,518.8	6.3995	594.50	199.45	2,300.6	722.74	1,622.2	1,349.6	381.50
1984	1,757.0	7.3928	617.30	201.09	2,339.2	747.54	1,799.0	1,380.9	308.30
1985	1,909.8	8.0267	650.24	213.06	2,461.1	780.09	1,936.2	1,447.6	327.00
1986	1,490.8	8.8684	686.92	215.14	2,187.1	830.17	1,746.7	1,462.1	390.90
1987	1,296.4	8.9802	721.57	215.71	2,122.3	870.33	1,675.7	1,494.7	484.10
1988	1,301.6	10.1407	741.11	218.49	2,314.6	889.79	1,747.9	1,537.2	410.25
1986 — 4th qtr...	1,389.7	8.6627	692.56	211.42	1,986.2	834.97	1,675.7	1,442.6	390.90
1987 — 1st qtr...	1,306.3	8.5330	710.60	213.30	2,014.1	845.45	1,647.0	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	1,699.1	1,501.4	459.50
4th " ...	1,248.5	9.2156	732.27	216.89	2,188.2	891.33	1,674.7	1,513.6	484.10
1988 — 1st qtr...	1,235.6	9.6595	737.23	217.97	2,219.6	898.86	1,690.2	1,524.0	456.95
2nd " ...	1,268.1	10.0886	742.87	219.46	2,334.4	894.17	1,734.5	1,543.3	436.55
3rd " ...	1,385.6	10.3559	742.28	219.22	2,348.2	885.72	1,797.0	1,542.2	396.70
4th " ...	1,317.3	10.4588	742.04	217.31	2,356.1	880.39	1,769.9	1,539.1	410.25
1987 — 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
Feb.	1,250.3	9.6745	736.42	217.98	2,196.3	897.81	1,694.8	1,521.0	426.15
Mar.	1,241.4	9.7648	739.75	218.01	2,272.4	895.16	1,702.5	1,531.9	456.95
Apr.	1,242.2	9.9368	742.61	218.79	2,330.4	898.07	1,716.7	1,541.6	449.00
May	1,258.7	10.0907	743.28	219.51	2,352.8	892.18	1,731.9	1,545.8	455.50
June	1,303.4	10.2383	742.72	220.09	2,320.1	892.27	1,755.1	1,542.3	436.55
July	1,366.5	10.2632	740.84	219.77	2,329.2	891.48	1,783.4	1,539.9	436.80
Aug.	1,397.9	10.4462	740.21	218.65	2,371.5	882.31	1,806.1	1,540.9	427.75
Sept.	1,392.5	10.3584	745.78	219.24	2,343.9	883.37	1,801.5	1,545.9	396.70
Oct.	1,357.4	10.5200	745.10	218.39	2,354.0	880.00	1,791.0	1,544.5	412.40
Nov.	1,299.3	10.5565	743.38	217.61	2,351.0	885.88	1,762.6	1,540.8	424.75
Dec.	1,295.2	10.3000	737.65	215.92	2,363.3	875.28	1,756.1	1,532.1	410.25
1989 — Jan.	1,344.2	10.5690	733.71	215.20	2,386.5	862.60	1,781.4	1,528.4	394.00

(1) End-of-period data.

Table a9

Nominal effective exchange rates (1)

(indices, 1980 = 100)

	US	Canada	Japan	Germany	France	UK	Italy	Switzerland
1981	108.0	100.3	111.4	95.6	93.6	101.6	90.6	102.1
1982	118.8	100.4	103.6	100.6	86.4	97.7	84.7	110.2
1983	121.7	101.8	112.5	104.2	80.5	90.7	81.8	114.8
1984	129.2	98.6	118.1	103.1	77.5	86.8	78.2	113.2
1985	133.3	94.1	120.3	103.1	78.2	86.3	73.9	112.1
1986	109.3	86.7	155.6	111.5	79.9	78.8	74.5	121.0
1987	96.9	87.8	170.1	117.8	79.6	77.5	74.0	126.6
1988	(90.1)	(93.1)	(188.5)	(117.1)	(78.1)	(82.0)	(71.7)	(125.4)
1987 — 2nd qtr.	96.7	87.2	172.3	117.3	79.6	77.8	74.0	126.7
3rd "	98.1	88.4	168.4	117.1	79.5	77.8	73.5	126.0
4th "	92.8	87.6	177.5	118.8	79.4	79.7	73.3	128.7
1988 — 1st qtr.	89.5	89.9	186.3	118.6	79.2	80.2	72.8	128.9
2nd "	88.5	92.6	190.1	117.4	78.5	83.0	71.7	126.1
3rd "	93.0	95.1	184.3	115.7	77.6	81.7	70.9	123.2
4th "	(89.2)	(94.9)	(193.1)	(116.5)	(77.3)	(82.9)	(71.4)	(123.3)
1987 — Dec.	89.8	86.9	184.4	119.6	79.5	80.4	73.3	130.8
1988 — Jan.	89.4	88.5	186.3	119.0	79.6	79.8	73.2	130.3
Feb.	90.3	90.2	185.6	118.4	79.2	79.2	72.8	128.7
Mar.	88.9	91.2	187.0	118.4	78.8	81.8	72.4	127.6
Apr.	87.8	91.9	189.9	118.0	78.5	83.4	72.0	127.2
May	88.2	91.9	190.9	117.5	78.5	83.8	71.7	125.8
June	89.5	94.1	189.6	116.8	78.5	81.9	71.4	125.3
July	92.2	95.9	184.2	115.9	78.0	81.4	71.0	124.5
Aug.	93.4	94.8	185.1	115.3	77.3	82.4	70.9	122.6
Sept.	93.5	94.7	183.6	116.1	77.4	81.3	70.7	122.6
Oct.	90.9	95.6	189.3	116.3	77.1	82.1	70.9	122.5
Nov.	88.5	93.7	195.5	116.8	77.5	82.8	71.5	124.1
Dec.	(88.2)	(95.4)	(194.4)	(116.4)	(77.2)	(83.7)	(71.9)	(123.2)
1989 — Jan.	(90.1)	(96.5)	(191.6)	(115.2)	(76.6)	(83.9)	(71.7)	(120.9)

(1) Based on the 15 leading countries' shares of international trade. For the method of calculation, see the article "New Indices of Real and Nominal Effective Exchange Rates" in this issue.

Real effective exchange rates (1)

(indices, 1980 = 100)

	US	Canada	Japan	Germany	France	UK	Italy	Switzerland
1981	111.7	100.6	102.2	91.9	94.8	101.5	96.6	99.0
1982	120.0	104.0	91.0	94.4	91.5	98.5	96.3	102.6
1983	120.9	107.4	95.4	94.6	89.7	92.7	99.0	103.1
1984	126.6	106.1	96.6	91.0	89.2	89.7	99.0	100.1
1985	128.5	103.1	95.7	89.7	92.8	91.7	97.4	98.1
1986	103.3	99.1	120.9	97.7	98.5	90.4	100.9	103.7
1987	93.8	101.0	125.9	102.3	99.0	91.9	102.9	105.6
1986 — 4th qtr.	100.0	99.5	121.8	100.9	99.5	85.9	103.8	105.0
1987 — 1st qtr.	96.1	100.6	121.5	102.9	99.6	88.0	104.1	104.9
2nd "	93.5	100.3	127.6	102.1	98.8	92.4	102.5	105.6
3rd "	95.4	101.8	124.0	101.5	98.6	92.1	102.3	104.5
4th "	90.3	101.4	130.4	102.8	98.8	95.0	102.8	107.2
1988 — 1st qtr.	87.2	104.7	135.4	102.4	98.9	96.5	102.4	107.3
2nd "	86.9	107.6	136.1	101.2	97.7	100.4	100.8	105.0
3rd "	(91.5)	(110.5)	(130.9)	(99.6)	(96.3)	(98.9)	(100.0)	(102.7)
1987 — Sept.	93.7	102.2	126.9	101.4	98.6	92.7	103.0	104.6
Oct.	93.7	102.4	125.7	101.5	98.5	93.4	103.2	105.1
Nov.	89.9	100.8	130.2	103.4	98.7	95.4	102.4	107.7
Dec.	87.3	100.9	135.2	103.5	99.2	96.2	102.9	108.9
1988 — Jan.	86.9	103.4	135.8	102.9	99.4	95.7	102.9	108.3
Feb.	88.0	104.7	134.8	102.2	98.9	95.2	102.4	106.8
Mar.	86.6	106.0	135.6	102.0	98.5	98.6	101.9	106.8
Apr.	86.1	106.6	136.4	101.7	97.9	100.8	101.3	105.9
May	86.7	106.7	136.5	101.4	97.8	101.3	100.9	104.5
June	87.9	109.4	135.3	100.6	97.4	99.0	100.3	104.7
July	90.7	111.4	131.0	99.7	96.9	98.5	99.9	103.7
Aug.	92.1	110.1	131.3	99.2	95.9	99.8	100.2	101.8
Sept.	(91.8)	(110.1)	(130.3)	(99.8)	(96.1)	(98.6)	(100.1)	(102.6)
Oct.	(89.2)	(111.0)	(134.1)	(99.8)	(95.9)	(99.7)	(100.2)	(102.1)
Nov.	(87.0)	(109.0)	(137.9)	(100.4)	(96.0)	(100.6)	(101.4)	(103.3)

Source: Based on IMF, OECD and Istat data. For the method of calculation, see the article "New Indices of Real and Nominal Effective Exchange Rates" in this issue.

(1) Based on wholesale prices of manufactures.

Table a11

External position of the Italian credit system (1)

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

VIS-A-VIS (2)	1988 March	1988 June	1988 September
Industrial countries	127,724	142,104	(141,670)
OPEC countries	3,349	3,740	(3,942)
Other developing countries	9,468	10,382	(11,944)
of which: Latin America	6,062	6,320	(6,845)
Africa	1,339	1,456	(2,595)
Asia	1,302	1,742	(1,569)
Middle East	765	864	(935)
Eastern Europe	7,740	8,476	(9,141)
Offshore centres	12,539	14,512	(15,596)
International organizations	1,062	1,301	(1,555)
Total	**161,882**	**180,515**	**(183,848)**
Memorandum item:			
"Baker Plan" countries:			
Argentina	1,586	1,642	(1,928)
Bolivia	1	3	—
Brazil	1,187	1,260	(1,390)
Chile	370	241	(273)
Colombia	213	217	(259)
Ivory Coast	67	48	(76)
Ecuador	114	145	(121)
Philippines	145	143	(138)
Yugoslavia	407	426	(416)
Morocco	431	466	(454)
Mexico	1,738	1,874	(1,958)
Nigeria	155	184	(179)
Peru	241	253	(258)
Uruguay	24	28	(39)
Venezuela	534	612	(627)
Total	**7,213**	**7,542**	**(8,116)**
Bulgaria	289	320	(342)
Czechoslovakia	177	162	(204)
Poland	1,402	1,499	(1,636)
German Democratic Republic	1,214	1,234	(1,309)
Romania	109	94	(84)
Hungary	430	709	(748)

(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					
1983	1.1	−1.6	0.6	1.1	−1.5	−0.1	0.7	−1.1	2.3
1984	3.2	11.0	4.6	..	11.3	5.3	2.4	8.1	7.6
1985	2.9	4.7	3.2	−0.6	5.7	2.5	3.0	4.4	3.8
1986	2.9	4.7	3.2	0.7	2.0	1.4	3.5	4.3	3.4
1987	3.1	10.0	4.5	−1.3	11.5	5.2	4.3	5.1	3.6
1986 — 1st qtr. ...	−0.2	2.1	0.2	−0.2	−2.4	−1.3	0.8	4.5	−3.0
2nd " ...	1.9	−2.4	1.1	0.5	3.3	1.9	0.6	−4.7	6.1
3rd " ...	0.9	5.9	1.8	0.5	2.1	1.3	1.2	7.6	−0.1
4th " ...	0.3	−5.4	−0.8	−1.7	3.1	0.8	1.4	−3.4	−6.5
1987 — 1st qtr. ...	0.7	8.2	2.1	−1.2	2.6	0.8	1.2	2.5	6.1
2nd " ...	1.0	4.7	1.7	1.4	6.4	4.1	1.4	5.5	−2.5
3rd " ...	0.9	−2.3	0.2	−0.8	−3.0	−2.0	0.5	−7.1	7.6
4th " ...	0.3	5.1	1.3	0.5	4.0	2.4	..	9.5	−2.1
1988 — 1st qtr. ...	1.3	−3.6	0.2	3.5	2.1	2.7	1.9	−5.0	−2.6
2nd " ...	0.6	6.7	1.9	−1.4	1.9	0.4	1.2	−11.6	16.1
				Implicit price deflators					
1983	15.0	5.1	13.2	12.9	8.7	11.1	15.0	14.9	8.6
1984	11.4	11.1	11.3	10.2	8.3	9.0	11.7	13.6	10.4
1985	8.8	7.5	8.5	8.6	8.0	8.1	9.2	7.3	8.0
1986	7.6	−15.2	3.3	3.9	3.3	3.6	5.9	2.7	−4.4
1987	5.6	−0.3	4.4	3.8	2.8	2.8	4.8	6.4	2.3
1986 — 1st qtr. ...	2.3	−5.7	0.8	0.5	0.6	0.6	1.3	2.0	−2.6
2nd " ...	2.1	−7.4	0.6	0.9	1.6	1.1	1.1	3.0	−2.6
3rd " ...	1.8	−7.3	0.1	0.8	−1.8	−0.5	1.2	−2.1	−1.0
4th " ...	1.6	2.3	2.0	0.7	..	0.2	0.9	7.9	1.4
1987 — 1st qtr. ...	0.6	1.2	0.3	0.6	1.9	1.1	1.1	−3.2	0.8
2nd " ...	1.8	3.6	1.9	0.8	0.6	0.5	1.3	4.3	2.5
3rd " ...	1.0	0.2	1.0	1.1	1.4	1.3	1.6	3.0	−1.6
4th " ...	1.7	−0.7	1.0	3.0	0.5	1.6	1.2	−2.2	2.3
1988 — 1st qtr. ...	1.3	−0.2	1.4	1.1	0.9	1.1	0.9	5.9	−1.3
2nd " ...	0.8	4.2	0.9	1.4	1.0	1.1	1.1	4.7	1.1

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)*				
1984	95.4	96.3	94.4	95.2	−27.5	−26.7	−24.1	7.4	7.8
1985	96.5	97.5	99.2	94.9	−22.7	−29.7	−21.1	7.6	6.1
1986	99.2	101.1	103.1	96.5	−18.8	−23.9	−18.0	11.2	4.9
1987	103.1	104.9	105.2	101.1	−8.3	−25.3	−9.1	10.9	−0.8
1988	....	....	....	....	3.3	−9.6	2.9	18.6	−7.5
1983 — 3rd qtr.	92.5	93.6	93.5	91.4	−49.5	−45.5	−46.5	−3.7	13.3
4th "	94.2	93.9	95.1	94.0	−43.2	−34.2	−39.3	0.1	5.7
1984 — 1st qtr.	93.2	93.1	91.9	93.7	−34.9	−30.6	−31.4	4.4	11.3
2nd "	95.2	96.8	91.9	95.3	−28.4	−22.0	−24.8	9.4	6.7
3rd "	97.0	98.0	96.7	96.5	−24.9	−25.0	−21.7	8.5	8.7
4th "	96.2	97.3	97.0	95.2	−21.6	−29.4	−18.5	7.4	4.7
1985 — 1st qtr.	96.1	96.6	98.4	94.8	−23.1	−29.3	−21.4	6.6	6.0
2nd "	96.6	97.9	98.6	95.1	−25.8	−30.4	−23.4	6.0	8.3
3rd "	96.7	98.0	99.2	94.8	−19.8	−29.4	−18.9	9.4	5.3
4th "	96.8	97.5	100.6	95.0	−22.1	−29.9	−20.7	8.3	4.7
1986 — 1st qtr.	98.4	100.4	101.4	96.1	−24.7	−26.2	−22.1	8.8	4.3
2nd "	98.5	100.2	102.7	95.9	−16.2	−24.0	−17.9	11.6	8.7
3rd "	99.0	100.6	103.4	96.4	−18.1	−23.7	−16.9	12.1	4.0
4th "	100.7	103.2	104.8	97.4	−16.1	−21.7	−15.1	12.2	2.7
1987 — 1st qtr.	100.8	103.5	102.9	98.3	−11.9	−25.4	−12.2	13.1	4.0
2nd "	103.5	104.9	105.8	101.7	−9.6	−27.4	−11.2	9.9	1.7
3rd "	103.0	105.0	104.1	101.3	−7.7	−26.2	−8.2	10.5	−4.3
4th "	105.0	106.3	108.0	103.1	−4.1	−22.3	−4.8	10.0	−4.3
1988 — 1st qtr.	106.9	107.4	112.8	104.5	−2.3	−17.2	−1.9	9.6	−2.7
2nd "	106.2	106.6	112.7	103.7	0.3	−9.6	0.2	15.3	−7.0
3rd "	108.3	108.8	114.1	106.0	5.4	−8.2	4.8	20.8	−8.7
4th "	....	....	....	....	9.9	−3.3	8.6	28.5	−11.7

Source: Based on Istat and Isco data.

(1) Industrial production data are also adjusted for variations in the number of working days. – (2) Raw data.

Labour market statistics (1)

(seasonally adjusted data; thousands of units and percentages)

	EMPLOYMENT					Unem-ployment	Labour force	Unemployment rate (%)		Partici-pation rate (%)
	Agricul-ture	Industry excluding construc-tion	Construc-tion	Other	Total			(2)	(3)	
1984	2,426	5,087	1,956	11,179	20,647	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	20,861	2,611	23,468	11.1	12.8	41.5
1987	2,169	4,867	1,849	11,952	20,837	2,832	23,669	12.0	13.3	41.8
1988	2,059	4,954	1,835	12,256	21,103	2,885	23,988	12.0	....	42.2
1984 — 3rd qtr.	2,390	5,031	1,941	11,363	20,725	2,271	22,996	9.9	12.0	40.8
4th "	2,328	4,993	1,945	11,439	20,705	2,306	23,011	10.0	12.1	40.8
1985 — 1st qtr.	2,282	4,975	1,957	11,471	20,685	2,329	23,014	10.1	12.2	40.7
2nd "	2,313	4,966	1,917	11,584	20,779	2,362	23,141	10.2	12.0	41.0
3rd "	2,313	4,974	1,885	11,629	20,802	2,432	23,235	10.5	12.0	41.1
4th "	2,310	4,952	1,908	11,664	20,834	2,500	23,333	10.7	12.3	41.3
1986 — 1st qtr.	2,263	4,964	1,900	11,731	20,858	2,566	23,425	11.0	12.6	41.4
2nd "	2,209	4,953	1,871	11,773	20,806	2,585	23,392	11.1	12.7	41.3
3rd "	2,223	4,916	1,866	11,861	20,866	2,653	23,518	11.3	12.7	41.5
4th "	2,235	4,921	1,855	11,923	20,934	2,738	23,672	11.6	13.0	41.8
1987 — 1st qtr.	2,216	4,869	1,851	11,925	20,860	2,763	23,622	11.7	13.0	41.7
2nd "	2,180	4,850	1,858	11,921	20,808	2,848	23,656	12.0	13.4	41.7
3rd "	2,124	4,864	1,848	11,980	20,816	2,900	23,716	12.2	13.5	41.8
4th "	2,092	4,889	1,821	12,092	20,893	2,888	23,781	12.1	13.2	41.9
1988 — 1st qtr.	2,102	4,944	1,827	12,230	21,104	2,902	24,006	12.1	13.1	42.3
2nd "	2,084	4,982	1,844	12,327	21,236	2,905	24,141	12.0	13.1	42.5
3rd "	2,015	4,964	1,843	12,283	21,105	2,867	23,972	12.0	....	42.2

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 and seasonally adjusted.

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		
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	5.8	6.1	5.9
1987	3.4	6.1	1.2	2.7	4.3	4.5	5.6	4.8	4.6	5.4
1988	4.7	5.4	4.5	4.7	3.9	4.8	6.4	5.0	5.0	5.3
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	4.8	5.9	5.2	5.4	5.2	5.6
1988 — 1st qtr.	4.2	6.1	3.6	4.1	3.7	5.3	6.1	5.1	4.9	5.2
2nd "	4.7	5.4	3.9	4.4	3.6	5.1	6.2	5.0	4.9	5.0
3rd "	4.8	5.1	4.8	4.9	4.2	4.6	6.1	5.0	4.9	5.5
4th "	5.1	4.9	5.8	5.4	4.2	4.1	7.1	5.1	5.2	5.6
1987 — 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	4.6	5.9	4.8	5.2	5.1	5.6
1988 — Jan.	3.9	5.8	3.4	3.9	3.8	5.4	5.9	5.2	5.0	5.3
Feb.	4.4	6.6	3.5	4.2	3.7	5.3	6.1	5.0	4.9	5.1
Mar.	4.3	5.8	3.8	4.3	3.6	5.4	6.3	5.2	4.9	5.1
Apr.	4.8	5.4	3.6	4.4	3.7	5.3	6.3	5.1	5.0	5.0
May	4.6	5.4	3.9	4.5	3.4	5.1	6.1	5.0	4.9	5.0
June	4.6	5.3	4.3	4.5	3.6	4.8	6.2	5.0	4.9	5.0
July	4.6	5.5	4.4	4.7	3.9	4.6	6.1	5.0	4.9	5.2
Aug.	5.3	5.1	4.7	5.0	4.1	5.0	6.1	5.0	5.0	5.6
Sept.	4.5	4.7	5.3	5.0	4.4	4.2	6.2	4.9	4.8	5.7
Oct.	4.3	4.3	5.6	5.0	3.6	4.1	6.8	4.8	4.7	5.5
Nov.	5.4	4.8	5.7	5.5	4.3	4.1	7.2	5.1	5.3	5.7
Dec.	5.6	5.6	6.1	5.9	4.7	4.1	7.4	5.4	5.5	5.7
1989 — Jan.	....	....	....	....	....	....	....	....	5.7	....

Source: Istat.

Table a16

Italy's real exchange rates

(indices, 1980 = 100)

	With respect to:							
	Germany	France	UK	Belgium	Netherlands	US	EEC countries (1)	14 industrial countries (2)
1983	102.5	109.1	101.5	110.5	102.8	71.7	104.9	99.0
1984	105.3	109.4	103.2	111.6	103.9	66.6	106.3	99.0
1985	105.3	104.4	99.9	109.7	105.1	65.6	104.3	97.4
1986	102.3	102.8	108.0	117.3	113.4	87.5	104.9	100.9
1987	100.7	104.3	110.1	119.5	113.5	100.6	105.1	102.9
1986 — 2nd qtr.	102.1	102.5	101.1	115.7	112.8	84.3	103.7	99.4
3rd "	102.2	103.9	109.1	119.3	115.3	91.2	105.5	101.7
4th "	102.5	104.6	117.2	120.8	115.9	94.3	107.1	103.8
1987 — 1st qtr.	101.3	104.8	115.9	119.4	114.6	100.2	106.3	104.1
2nd "	100.4	104.0	109.0	118.6	113.1	100.3	104.8	102.5
3rd "	100.8	104.0	108.8	119.2	112.8	97.6	104.8	102.3
4th "	100.3	104.3	106.9	120.6	113.6	104.5	104.6	102.8
1988 — 1st qtr.	100.2	103.9	104.8	121.0	114.4	105.7	104.2	102.4
2nd "	99.5	103.5	99.0	119.8	113.0	102.5	102.9	100.8
3rd "	100.0	103.9	98.5	119.1	113.3	94.1	103.1	100.0
1987 — Apr.	101.2	104.6	110.5	119.3	114.3	101.0	105.6	103.3
May	100.0	103.8	108.0	118.3	113.0	101.1	104.4	102.2
June	100.0	103.7	108.5	118.2	111.9	98.8	104.3	101.9
July	100.1	103.5	108.3	118.2	112.1	96.8	104.2	101.8
Aug.	100.7	104.0	109.2	119.1	112.9	96.3	104.8	102.2
Sept.	101.5	104.7	108.9	120.5	113.5	99.6	105.4	103.0
Oct.	101.5	104.8	108.3	121.0	113.9	100.1	105.4	103.2
Nov.	99.5	104.1	106.2	120.1	112.8	105.0	104.0	102.4
Dec.	99.8	104.1	106.2	120.9	114.2	108.4	104.3	102.9
1988 — Jan.	100.2	103.9	106.3	121.2	114.5	107.3	104.5	102.9
Feb.	100.3	104.0	105.9	121.1	114.6	104.4	104.4	102.4
Mar.	99.9	103.7	102.1	120.7	114.2	105.2	103.7	101.9
Apr.	99.6	103.8	99.3	120.2	113.1	104.7	103.1	101.3
May	99.5	103.4	98.3	119.8	113.2	103.2	102.8	100.9
June	99.5	103.2	99.4	119.3	112.8	99.6	102.8	100.3
July	99.8	103.3	99.0	119.5	112.8	94.9	102.9	99.9
Aug.	100.4	104.3	97.7	119.3	113.8	93.3	103.4	100.1
Sept.	99.9	104.1	98.9	118.6	113.3	94.1	103.2	100.1
Oct.	99.8	104.4	98.1	118.0	112.4	96.5	103.0	100.2
Nov.	(100.5)	(105.4)	(98.7)	(118.8)	(113.1)	(101.2)	(103.8)	(101.4)

(1) Germany, France, the UK, Belgium, the Netherlands, Ireland, Denmark, and Spain. — (2) The eight 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

(billions of lire)

	Goods (1)	Services and transfers: Foreign travel	Services and transfers: Income from capital	Services and transfers: Other	Services and transfers: Total	Balance on current account	Non-bank capital flows plus errors and omissions	Balance of non-monetary trans-actions	Bank capital flows (2)	Change in official reserves (2)
1983	−9,177	10,954	−6,418	5,347	9,883	706	3,087	3,793	4,994	−8,787
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	−4,716	10,353	−10,259	3,311	3,405	−1,311	−1,654	−2,965	6,454	−3,489
1987(3)	−8,186	9,902	−9,873	5,013	5,042	−3,144	4,346	1,202	5,573	−6,775
1988(3)	....	....	....	....	....	....	....	(1,091)	(9,864)	(−10,955)
1986 — Sept.	−212	1,248	−683	450	1,015	803	−2,500	−1,697	−331	2,028
Oct.	339	920	−985	336	271	610	−1,261	−651	1,953	−1,302
Nov.	−258	482	−747	−293	−558	−816	683	−133	−550	683
Dec.	−1,435	528	−1,400	237	−635	−2,070	1,614	−456	20	436
1987 — Jan.	44	209	−716	1,071	564	608	−988	−380	619	−239
Feb.	−750	260	−949	673	−16	−766	2,208	1,442	2,377	−3,819
Mar.	−582	572	−627	−93	−148	−730	1,656	926	273	−1,199
Apr.	−526	886	−688	685	883	357	1,222	1,579	−883	−696
May	−1,564	941	−1,226	335	50	−1,514	−1,351	−2,865	1,011	1,854
June	−1,450	1,543	−876	1,061	1,728	278	−2,781	−2,503	788	1,715
July	17	1,664	−1,217	53	500	517	−407	110	−2,019	1,909
Aug.	−29	1,155	−503	397	1,049	1,020	−2,031	−1,011	−3,214	4,225
Sept.	−894	1,050	−703	520	867	−27	1,199	1,172	2,973	−4,145
Oct.	(−478)	(829)	(−847)	(270)	(252)	(−226)	(463)	237	1,769	−2,006
Nov.	(−1,394)	(418)	(−727)	(73)	(−236)	(−1,630)	(3,286)	1,656	1,815	−3,471
Dec.	(−589)	(375)	(−971)	(−26)	(−622)	(−1,211)	(2,050)	839	64	−903
1988 — Jan.	(−340)	(128)	(−746)	(842)	(224)	(−116)	(1,820)	1,704	1,450	−3,154
Feb.	(−1,195)	(171)	(−649)	(210)	(−268)	(−1,463)	(576)	−887	1,632	−745
Mar.	(−1,430)	(446)	(−755)	(−44)	(−353)	(−1,783)	(1,490)	−293	−1,194	1,487
Apr.	(−1,393)	(505)	(−947)	(−61)	(−503)	(−1,896)	(−1,146)	−3,042	903	2,139
May	(−2,074)	(982)	(−1,171)	(−242)	(−431)	(−2,505)	(1,652)	−853	130	723
June	(−783)	(1,222)	(−1,108)	(1,043)	(1,157)	(374)	(174)	548	1,774	−2,322
July	(−561)	(1,493)	(−1,123)	(9)	(379)	(−182)	(3,906)	3,724	84	−3,808
Aug.	(847)	(1,025)	(−481)	(79)	(623)	(1,470)	(1,728)	3,198	−1,564	−1,634
Sept.	(−2,244)	(918)	(−874)	(682)	(726)	(−1,518)	(−721)	−2,239	81	2,158
Oct.	....	....	....	....	....	....	....	(2,012)	(84)	(−2,096)
Nov.	....	....	....	....	....	....	....	(−826)	(2,766)	(−1,940)
Dec.	....	....	....	....	....	....	....	(−2,042)	(3,678)	(−1,636)

(1) Imports: cif; exports: fob. — (2) 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. — (3) Annual total may not coincide with the sum of the monthly totals because of the provisional nature of the data.

Table a18

External position of BI-UIC

	Short-term position							Medium and long-term position	Total official reserves
	Assets					Liabilities	Balances (1)		
	Gold	Convertible currencies	ECUs	SDRs	Reserve position in the IMF				
	(billions of lire)								
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 — Dec.	39,812	20,307	12,220	1,253	1,691	127	75,156	– 859	74,297
1988 — Jan.	39,812	23,823	11,154	1,267	1,658	35	77,679	– 651	77,028
Feb.	39,812	24,260	11,167	1,260	1,668	98	78,069	– 195	77,874
Mar.	38,115	22,551	11,285	1,252	1,636	120	74,719	215	74,934
Apr.	38,115	20,712	10,928	1,255	1,676	180	72,506	238	72,744
May	38,115	20,521	10,939	1,279	1,693	511	72,036	275	72,311
June	37,499	22,680	10,896	1,214	1,792	143	73,938	314	74,252
July	37,499	26,878	10,895	1,232	1,803	106	78,201	346	78,547
Aug.	37,499	28,538	10,906	1,245	1,751	39	79,900	317	80,217
Sept.	37,924	26,714	10,939	1,255	1,781	217	78,396	306	78,702
Oct.	(37,924)	(28,821)	(10,434)	(1,230)	(1,710)	(158)	(79,961)	(335)	(80,296)
Nov.	(37,924)	(30,567)	(10,405)	(1,237)	(1,701)	(320)	(81,514)	(357)	(81,871)
Dec.	(37,242)	(32,078)	(10,360)	(1,239)	(1,653)	(107)	(82,465)	(337)	(82,802)
	(millions of dollars)								
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 — Dec.	34,050	17,368	10,451	1,072	1,446	109	64,278	– 735	63,543
1988 — Jan.	34,050	19,292	9,032	1,026	1,343	28	64,715	– 527	64,187
Feb.	34,050	19,495	8,974	1,013	1,340	79	64,793	– 157	64,637
Mar.	30,965	18,321	9,168	1,017	1,329	97	60,703	175	60,877
Apr.	30,965	16,677	8,799	1,010	1,349	145	58,656	192	58,847
May	30,965	16,033	8,546	999	1,323	399	57,467	215	57,682
June	27,741	16,778	8,061	898	1,326	106	54,697	232	54,930
July	27,741	19,386	7,858	889	1,300	76	57,098	250	57,348
Aug.	27,741	20,501	7,835	894	1,258	28	58,201	228	58,429
Sept.	27,083	19,077	7,812	896	1,272	155	55,985	219	56,204
Oct.	(27,083)	(21,893)	(7,926)	(934)	(1,299)	(120)	(59,015)	(254)	(59,270)
Nov.	(27,083)	(23,800)	(8,102)	(963)	(1,324)	(249)	(61,023)	(278)	(61,301)
Dec.	(28,521)	(24,566)	(7,934)	(949)	(1,266)	(82)	(63,154)	(258)	(63,412)

(1) Short-term assets less short-term liabilities: the balances expressed in dollars may not coincide with the sum of the component items owing to translation roundings.

Table a19

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					
1983	143,554	34,014	177,569	199,551	50,841	250,392	–72,823	–15,437	–88,260	–88,260	—
1984	160,627	39,082	199,709	243,883	48,761	292,645	–92,936	–2,760	–95,695	–95,695	—
1985	177,645	43,945	221,589	279,238	54,988	334,226	–112,637	–9,989	–122,626	–112,223	–2,187
1986	202,090	51,779	253,869	307,338	63,681	371,019	–117,150	6,987	–110,163	–110,163	–606
1987	224,676	56,858	281,534	334,017	67,252	401,269	–119,735	5,523	–114,212	–113,791	–132
1988	258,868	54,680	313,547	368,780	65,969	434,749	–121,202	–3,449	–124,651	–123,919	–64
1986 — 2nd qtr.	55,143	10,592	65,735	68,946	14,814	83,760	–18,025	–1,952	–19,976	–19,976	–79
3rd "	37,669	10,793	48,463	86,615	17,475	104,090	–55,627	19,415	–36,212	–36,212	–127
4th "	66,551	23,421	89,973	89,320	29,743	119,063	–29,090	1,474	–27,616	–27,616	–64
1987 — 1st qtr.	44,612	10,613	55,225	68,047	11,776	79,824	–24,599	–287	–24,886	–24,886	–41
2nd "	59,020	9,551	68,572	95,362	12,683	108,046	–39,474	17,584	–21,890	–21,890	–32
3rd "	43,265	11,815	55,080	70,762	17,195	87,957	–32,877	–5,585	–38,462	–38,319	–33
4th "	77,778	24,879	102,657	99,844	25,598	125,442	–22,785	–6,190	–28,974	–28,696	–27
1988 — 1st qtr.	50,455	6,958	57,413	64,976	1,558	66,534	–9,121	–17,773	–26,894	–26,894	–39
2nd "	66,510	10,176	76,686	83,865	14,222	98,087	–21,401	–3,024	–24,426	–24,365	–19
3rd "	49,746	17,902	67,648	111,951	17,303	129,253	–61,606	18,961	–42,645	–42,645	–4
4th "	92,157	19,643	111,800	107,989	32,886	140,874	–29,075	–1,612	–30,687	–30,015	–2
1988 — Jan.	18,383	1,949	20,332	16,357	217	16,573	3,759	–4,059	–300	–300	–9
Feb.	15,092	2,338	17,431	17,554	248	17,802	–372	–10,709	–11,081	–11,081	–25
Mar.	16,979	2,671	19,651	31,064	1,094	32,159	–12,508	–3,005	–15,514	–15,514	–6
Apr.	16,107	3,055	19,163	20,827	3,716	24,544	–5,381	–6,758	–12,139	–12,139	–17
May	21,907	4,018	25,925	30,638	6,637	37,275	–11,350	34	–11,316	–11,255	–1
June	28,495	3,103	31,598	32,400	3,868	36,268	–4,670	3,700	–970	–970	—
July	16,689	3,012	19,701	23,679	8,980	32,659	–12,958	–790	–13,748	–13,748	—
Aug.	18,113	10,922	29,035	45,831	5,015	50,846	–21,812	11,241	–10,571	–10,571	—
Sept.	14,944	3,969	18,912	42,441	3,307	45,748	–26,836	8,510	–18,326	–18,326	–4
Oct.	24,096	4,270	28,366	27,467	7,623	35,090	–6,724	–2,468	–9,192	–8,521	–1
Nov.	21,255	4,621	25,876	42,790	5,457	48,247	–22,371	7,018	–15,353	–15,353	—
Dec.	46,806	10,752	57,558	37,732	19,806	57,537	20	–6,161	–6,141	–6,141	–2

(1) Rounding may cause discrepancies in totals. The figures for the last year are subject to revision. — (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.

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					
1983	69,315	66,652	11,071	−1,125	−8,622	4,939	1,259	2,801	88,260	4,514
1984	62,762	56,738	9,300	13,288	18,555	6,365	2,271	1,709	95,695	10,028
1985	93,207	78,567	13,181	3,689	6,340	9,067	2,937	545	122,626	27,519
1986	87,072	53,534	9,697	1,673	4,525	11,271	856	−407	110,163	10,994
1987	56,090	35,267	27,482	10,224	9,274	12,879	6,066	1,470	114,212	9,240
1988	61,005	−7,848	41,982	3,658	4,331	10,202	4,130	3,673	124,651	3,020
1986 — 2nd qtr.	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	405	118	27,616	7,484
1987 — 1st qtr.	22,637	16,410	−6,986	7,632	6,596	2,045	475	−917	24,886	1,682
2nd "	21,588	8,424	1,562	−2,015	−1,490	975	421	−641	21,890	2,501
3rd "	12,158	9,600	19,795	3,255	3,452	2,022	541	690	38,462	9,403
4th "	−293	833	13,110	1,353	715	7,837	4,630	2,338	28,974	−4,346
1988 — 1st qtr.	11,638	7,519	6,468	5,698	5,843	2,606	748	−264	26,894	475
2nd "	13,151	−534	13,025	−1,553	−1,626	218	256	−672	24,426	−455
3rd "	11,668	−9,701	22,005	2,551	3,521	1,126	2,441	2,852	42,645	3,414
4th "	24,547	−5,133	484	−3,039	−3,406	6,251	686	1,757	30,687	−414
1988 — Jan.	3,954	4,965	−1,362	−4,971	−4,237	2,982	308	−612	300	490
Feb.	1,456	2,077	4,899	4,132	3,400	507	359	−272	11,081	−3,505
Mar.	6,228	478	2,931	6,537	6,680	−883	81	620	15,514	3,489
Apr.	7,726	−408	6,637	−1,656	−2,342	−187	−117	−263	12,139	586
May	4,995	−15	2,386	4,136	4,675	283	252	−735	11,316	2,204
June	430	−111	4,002	−4,032	−3,959	123	121	327	970	−3,246
July	2,971	−1,762	7,581	331	1,280	577	1,542	746	13,748	2,819
Aug.	1,033	−3,657	7,129	1,031	1,161	670	439	269	10,571	−4,163
Sept.	7,665	−4,281	7,295	1,189	1,080	−120	460	1,837	18,326	4,759
Oct.	8,426	−6,124	1,804	−2,294	−2,368	420	82	755	9,192	−2,298
Nov.	13,737	991	−1,278	3,354	3,108	−260	250	−449	15,353	4,532
Dec.	2,385	—	−43	−4,098	−4,145	6,091	354	1,452	6,141	−2,648

(1) Rounding may cause discrepancies in totals. The figures for the last year are subject to revision. – (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 27.9.1974.

The domestic public debt (1)

(face value; billions of lire)

	Medium and long-term securities excluding BI portfolio	Treasury bills in lire and ECUs 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.	80,895	127,395	39,322	23,613	1,938	273,164	78,670	351,834	332,540
1983 — Dec.	149,876	137,773	44,261	29,312	2,147	363,369	79,630	442,998	421,237
1984 — Mar.	165,970	134,604	45,867	30,616	2,196	379,252	82,915	462,166	439,658
June	182,600	140,249	45,970	32,570	2,246	403,634	80,740	484,374	459,893
Sept.	194,492	149,936	46,440	34,314	2,290	427,472	83,208	510,681	484,483
Dec.	207,892	152,691	50,626	38,024	2,379	451,611	92,864	544,475	516,215
1985 — Mar.	230,724	146,955	52,141	38,837	2,429	471,086	102,991	574,077	545,794
June	251,003	159,816	52,408	37,357	2,434	503,018	102,664	605,682	577,457
Sept.	273,513	165,217	52,399	35,940	2,457	529,525	106,014	635,540	609,644
Dec.	294,961	150,814	59,693	35,925	2,451	543,843	120,286	664,130	639,266
1986 — Mar.	306,585	153,075	61,003	34,931	2,384	557,978	131,536	689,514	666,148
June	335,811	154,261	61,274	35,712	2,399	589,458	120,596	710,054	686,204
Sept.	359,336	163,507	62,490	34,723	2,457	622,514	123,503	746,017	722,491
Dec.	374,454	159,187	70,964	37,444	2,475	644,523	130,955	775,478	750,716
1987 — Mar.	402,094	154,059	73,009	36,788	2,515	668,465	132,528	800,993	776,419
June	419,910	156,222	73,984	37,639	2,566	690,322	135,268	825,590	799,298
Sept.	429,284	172,444	76,007	36,302	2,628	716,664	144,446	861,111	837,509
Dec.	429,742	191,427	83,843	40,847	2,619	748,479	137,968	886,447	861,895
1988 — Mar.	442,778	204,162	86,450	40,324	2,650	776,364	136,232	912,596	888,680
1988 — June	456,119	216,430	86,668	40,729	2,718	802,664	135,601	938,265	913,057
July	458,162	221,822	87,245	41,382	2,726	811,338	138,239	949,577	924,584
Aug.	463,064	230,222	87,915	41,566	2,725	825,492	133,918	959,410	934,873
Sept.	464,710	239,399	87,794	41,986	2,726	836,616	138,858	975,474	953,029
Oct.	472,049	241,454	88,215	43,400	2,747	847,865	136,606	984,471	961,583

(1) Rounding may cause discrepancies in totals. The figures for the last year are subject to revision.

Monetary base (1)

(billions of lire)

	SOURCES						
	Foreign sector	Treasury				Refinancing	Other sectors
		Total	of which: BI-UIC government securities	of which: Treasury overdraft with BI	*Memorandum item: undrawn overdraft facility*		
1985 — Dec.	9,014	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 — Dec.	19,313	138,548	71,781	61,981	1,101	3,699	−9,064
1988 — Jan.	22,455	139,038	77,222	57,745	11,568	5,197	−9,089
Feb.	23,191	135,533	69,584	61,144	8,219	5,031	−9,910
Mar.	21,610	139,022	66,540	67,824	1,773	3,745	−10,697
Apr.	19,564	139,609	68,775	65,482	4,180	4,037	−11,380
May	18,828	141,813	66,818	70,157	−445	3,689	−11,799
June	21,050	138,567	67,605	66,198	3,527	3,722	−9,653
July	24,967	141,386	70,087	67,477	2,293	3,761	−11,516
Aug.	26,585	137,223	64,896	68,639	1,683	3,526	−10,526
Sept.	24,538	141,982	68,461	69,719	724	3,515	−11,079
Oct.	26,719	139,684	68,441	67,350	3,093	3,892	−11,826
Nov.	28,601	144,215	69,617	70,458	158	3,560	−11,914
Dec.	(29,609)	(141,568)	(71,060)	(66,313)	(4,303)	(3,477)	(−9,224)
1989 — Jan.	(31,953)	(141,349)	(72,356)	(64,790)	(2,940)	(4,138)	(−8,334)

	USES						
	Non-state sector		Banks				TOTAL MONETARY BASE
	Total	of which: notes and coin	Compulsory reserves	Deposit against ceiling overshoots	Liquidity	Total	
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 — Dec.	52,757	52,640	93,847	657	5,235	99,739	152,496
1988 — Jan.	50,276	50,176	102,382	1,205	3,737	107,324	157,600
Feb.	48,980	48,831	99,540	1,623	3,704	104,867	153,847
Mar.	50,078	49,966	97,618	1,589	4,395	103,602	153,680
Apr.	49,618	49,465	97,153	1,687	3,372	102,212	151,830
May	49,536	49,431	97,879	3	5,113	102,995	152,531
June	51,166	51,043	97,537	1	4,983	102,522	153,687
July	54,839	54,752	99,794	1	3,965	103,760	158,599
Aug.	51,165	51,074	101,065	1	4,577	105,643	156,808
Sept.	52,013	51,894	100,991	—	5,952	106,944	158,956
Oct.	51,433	51,233	102,861	—	4,173	107,035	158,468
Nov.	51,851	51,699	104,620	—	7,992	112,612	164,463
Dec.	(57,374)	(57,152)	(103,291)	—	(4,765)	(108,056)	(165,430)
1989 — Jan.	(53,247)	(53,130)	(112,186)	—	(3,673)	(115,859)	(169,106)

(1) Rounding may cause discrepancies in totals.

Table a22.2

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
1985	−13,677	27,519	5,880	−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	6,756	9,240	−729	−1,321	13,946	4,386	8,740	657	162
1988	(10,296)	(3,020)	(−222)	(−60)	(12,934)	(4,617)	(9,444)	−657	(−470)
1988 — Jan.	3,142	490	1,497	−25	5,104	−2,481	8,535	548	−1,498
Feb.	736	−3,505	−165	−821	−3,754	−1,296	−2,842	417	−33
Mar.	−1,581	3,489	−1,287	−787	−166	1,098	−1,923	−34	692
Apr.	−2,047	587	293	−683	−1,851	−461	−465	98	−1,024
May	−735	2,204	−348	−419	702	−82	726	−1,684	1,741
June	2,222	−3,246	34	2,146	1,156	1,629	−342	−2	−130
July	3,917	2,819	39	−1,864	4,912	3,673	2,257	..	−1,018
Aug.	1,617	−4,163	−235	991	−1,791	−3,674	1,271	—	612
Sept.	−2,047	4,759	−11	−553	2,148	847	−74	−1	1,375
Oct.	2,181	−2,298	376	−748	−488	−579	1,870	—	−1,779
Nov.	1,882	4,532	−331	−88	5,994	418	1,759	—	3,818
Dec.	(1,008)	(−2,648)	(−83)	(2,791)	(967)	(5,523)	(−1,329)	—	(−3,227)
1989 — Jan.	(2,344)	(−219)	(661)	(890)	(3,676)	(−4,127)	(8,895)	—	(−1,092)

Monetary base financing of the Treasury

(billions of lire)

	Borrowing requirement	Net sales of securities: Primary market: Treasury bills	Primary market: Treasury credit certificates	Primary market: Other	Open market (2): Total	Open market (2): of which: repurchase agreements	Net sales of securities: Total	Other forms of non-monetary financing	Monetary financing
1985	122,626	1,802	−68,695	−14,504	−1,480	4,933	−82,877	−12,231	27,519
1986	110,163	−6,455	−47,664	−31,521	−1,823	1,913	−87,463	−11,706	10,994
1987	114,212	−19,353	−31,207	−20,160	−13,936	−4,140	−84,656	−20,316	9,240
1988	(124,651)	(−29,045)	(9,587)	(−73,939)	(−10,318)	−1,066	(−103,716)	(−17,915)	(3,020)
1988 — Jan.	300	2,174	−5,169	−351	6,194	9,172	2,849	−2,659	490
Feb.	11,080	−4,846	−2,004	−541	−6,601	−5,216	−13,992	−593	−3,505
Mar.	15,514	−1,997	9	−6,325	−3,891	−5,131	−12,203	179	3,489
Apr.	12,139	−2,876	366	−8,614	−1,003	50	−12,127	574	587
May	11,316	−1,174	−157	−4,670	−3,346	−3,425	−9,348	236	2,204
June	970	−2,459	−109	−2,059	983	2,525	−3,645	−572	−3,246
July	13,748	−5,242	2,361	−5,292	104	33	−8,070	−2,859	2,819
Aug.	10,571	−4,043	3,718	−5,753	−7,274	−4,761	−13,353	−1,381	−4,163
Sept.	18,326	−8,429	5,260	−11,652	3,426	3,719	−11,395	−2,173	4,759
Oct.	9,192	−2,566	6,142	−14,300	473	1,295	−10,251	−1,239	−2,298
Nov.	15,353	2,371	(−830)	(−12,355)	−469	−708	−11,283	461	4,532
Dec.	(6,141)	(42)	(—)	(−2,027)	(1,086)	1,381	(−899)	(−7,890)	(−2,648)
1989 — Jan.	....	....	....	....	....	4,460	....	....	(−219)

(1) Rounding may cause discrepancies in totals. – (2) 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			
	Subscrip-tions	Redemptions	Total	Financing of subscriptions	Other purchases	Sales	
				Treasury bills			
1985	25,547	10,565	35	–386	1,075	–1,200	15,018
1986	24,420	21,177	–1,841	1,797	–320	—	1,402
1987	31,838	26,021	–10,332	–1,035	–501	—	–4,515
1988	(24,012)	(16,783)	(–12,489)	–614	–254	—	(–5,260)
1988 — Jan.	—	326	–2,398	454	–166	—	–2,724
Feb.	872	1,959	–2,258	–623	38	—	–3,345
Mar.	5,000	4,066	–982	–831	–126	—	–48
Apr.	4,831	2,614	–355	1,300	—	—	1,862
May	1,899	687	–1,576	–1,462	—	—	–363
June	—	—	–322	1,176	—	—	–322
July	3,732	1,393	–266	282	—	—	2,073
Aug.	2,230	300	–3,186	–670	—	—	–1,255
Sept.	1,331	2,465	–855	–225	—	—	–1,989
Oct.	2,638	2,973	140	337	—	—	–195
Nov.	1,478	—	–730	–730	—	—	748
Dec.	(—)	(1)	(299)	378	—	—	(298)
1989 — Jan.	....	....	....	–148	—	—	....
				Treasury credit certificates			
1985	9,963	92	749	—	2,551	–455	10,620
1986	8,051	2,182	–173	—	–136	—	5,696
1987	5,868	2,108	–2,590	—	–2,415	—	1,169
1988	(2,594)	(734)	(3,447)	—	237	37	(5,308)
1988 — Jan.	4	80	7,631	—	7,988	—	7,554
Feb.	106	43	–3,768	—	–3,660	—	–3,705
Mar.	479	17	–2,907	—	–3,023	1,000	–2,445
Apr.	56	98	–432	—	–1,305	–250	–474
May	16	189	–1,808	—	—	2,000	–1,980
June	60	280	1,312	—	126	–1,200	1,092
July	609	10	380	—	–5	234	978
Aug.	90	10	–3,992	—	10	4,101	–3,911
Sept.	979	..	4,242	—	–42	–4,036	5,221
Oct.	25	7	1,268	—	99	–849	1,287
Nov.	171	—	566	—	4	15	737
Dec.	(—)	(—)	(955)	—	45	–978	(955)
1989 — Jan.	....	....	....	—	3,575	–37	....

(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 27.9.1974.

BI-UIC operations in government securities (1)

(billions of lire)

	Primary market		Open market				
	Subscrip-tions	Redemptions	Total	of which: repurchase agreements — Financing of subscriptions	Other purchases	Sales	Variations in BI-UIC portfolio
			Other government securities				
1985	3,912	3,496	−2,264	—	38	—	−1,848
1986	6,638	4,620	191	—	572	—	2,209
1987	5,704	2,429	−1,013	—	−189	—	2,261
1988	(4,777)	(4,269)	(−1,276)	—	−398	—	(−769)
1988 — Jan.	—	352	962	—	896	—	610
Feb.	1,025	1,037	−575	—	−971	—	−587
Mar.	80	629	−2	—	−151	—	−551
Apr.	1,064	—	−216	—	−195	—	848
May	1,328	979	37	—	37	—	386
June	23	—	−7	—	23	—	16
July	418	978	−10	—	−10	—	−569
Aug.	73	—	−97	—	—	—	−24
Sept.	294	..	39	—	−50	—	333
Oct.	74	251	−935	—	10	—	−1,112
Nov.	40	44	−305	—	33	—	−309
Dec.	(358)	(—)	(−168)	—	−20	—	(190)
1989 — Jan.	....	....	....	—	996	—	....
				TOTAL			
1985	39,422	14,153	−1,480	−386	3,664	−1,655	23,790
1986	39,109	27,979	−1,823	1,797	116	—	9,307
1987	43,410	30,558	−13,936	−1,035	−3,105	—	−1,084
1988	(31,383)	(21,786)	(−10,318)	−614	−415	37	(−721)
1988 — Jan.	4	757	6,194	454	8,718	—	5,441
Feb.	2,002	3,039	−6,601	−623	−4,593	—	−7,637
Mar.	5,558	4,712	−3,891	−831	−3,300	1,000	−3,044
Apr.	5,951	2,712	−1,003	1,300	−1,500	−250	2,236
May	3,243	1,854	−3,346	−1,462	37	2,000	−1,958
June	83	280	983	1,176	149	−1,200	787
July	4,759	2,381	104	282	−15	234	2,482
Aug.	2,394	310	−7,274	−670	10	4,101	−5,191
Sept.	2,604	2,465	3,426	−225	−92	−4,036	3,565
Oct.	2,737	3,231	473	337	109	−849	−20
Nov.	1,689	44	−469	−730	37	15	1,176
Dec.	(358)	(1)	(1,086)	378	25	−978	(1,443)
1989 — Jan.	....	....	....	−148	4,571	−37	....

(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 27.9.1974.

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

(billions of lire)

	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	4-18	11.50	11.78
30 "	3,000	3,000	17-28	11.90	11.96
2 Feb.	1,500	1,500	18-25	12.35	12.40
4 "	3,750	3,750	5-23	11.00	11.03
13 "	2,000	2,000	3-17	10.75	10.78
20 "	3,500	3,500	3-10	10.75	10.88
25 "	3,500	3,500	2-22	10.70	10.82
27 "	1,250	1,250	17-31	10.90	11.14
19 May	750	750	13	12.05	12.20
25 "	3,500	3,500	2-7	10.50	10.62
29 "	1,000	1,000	17-24	11.50	11.92
5 June	2,000	2,000	13-14	12.15	12.35
8 "	1,500	1,500	3-8	11.55	11.84
25 "	2,000	2,000	6-7	11.80	11.84
23 July	2,250	2,250	7-12	10.55	10.71
27 "	2,000	2,000	3	11.05	11.28
30 "	2,000	2,000	4-5	12.15	12.15
5 Aug.	750	750	6	12.55	12.84
11 "	1,000	1,000	7-13	12.85	12.92
13 "	2,750	2,750	6-18	12.55	13.13
25 "	5,500	5,500	7-17	12.55	12.89
31 "	1,000	1,000	8	12.65	12.80
24 Sept.	1,500	1,500	5-7	12.65	12.87
1 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
23 "	1,000	1,000	7	11.90	11.90
25 "	4,000	4,000	4-5	11.85	11.93
4 Mar.	2,750	2,750	2-7	12.05	12.19
17 "	1,500	1,500	15	13.10	13.13
5 Dec.	5,000	5,000	1-8	13.05	13.09
1989 — 25 Jan.	4,500	4,500	6-22	13.10	13.29

(1) Repurchase agreements based on competitive bid auctions.

Table a25

Bank of Italy financing of purchases at Treasury bill auctions (1)

(billions of lire)

	Maximum amount (2)	Actual amount	Maturity (days)
1988 — 13 Jan.	2,652	911	16
29 "	9,931	1,626	5
15 Feb.	3,397	1,081	14
29 "	7,016	1,173	2
15 Mar.	446	741	16
30 "	4,028	675	2
29 Apr.	5,536	1,642	3
16 May	1,334	300	1
30 "	3,642	180	2
15 June	1,476	270	6
30 "	7,863	1,356	1
15 July	1,661	391	5
29 "	7,528	1,638	4
16 Aug.	2,072	—	2
30 "	6,250	968	1
15 Sept.	2,193	379	6
30 "	8,462	743	3
14 Oct.	1,889	453	6
31 "	7,480	1,080	3
15 Nov.	1,422	23	3
30 "	6,138	350	19
15 Dec.	1,159	148	5
30 "	9,226	728	3
1989 — 16 Jan.	3,004	238	4
30 "	11,154	580	14
14 Feb.	3,614	782	3

(1) The rate applied is that of the auction corresponding to the date of the transaction. — (2) Purchases at Treasury bill auctions by the syndicate of banks the Bank of Italy is prepared to finance.

Table a26

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

(billions of lire)

	Amount offered	Amount taken up	Maturity (days)	Yields	
				Maximum	Weighted average
1987 — 18 Mar.	2,500	2,500	7-12	10.70	9.81
20 "	750	750	5-11	11.00	10.55
13 Apr.	2,000	2,000	4-17	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	1,635	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
1988 — 12 Jan.	2,000	2,000	3-13	10.50	9.44
20 "	1,000	420	5-9	11.50	11.22
31 Mar.	1,000	1,000	5	9.55	9.42
7 Apr.	3,000	2,200	8	11.75	11.14
14 "	1,750	1,750	15	9.50	9.42
15 "	1,750	1,750	14	10.25	9.55
19 "	1,815	1,250	7-10	10.30	10.08
20 "	1,250	1,250	6	10.25	9.99
22 "	750	750	13	11.95	10.83
4 May	2,000	2,000	12	11.40	10.84
6 "	1,250	1,250	10-19	12.10	11.49
11 "	750	750	19	11.90	11.66
12 "	750	750	18	12.35	12.12
13 "	500	500	12-17	12.60	12.31
16 "	500	500	9-14	12.25	12.18
18 "	1,500	1,500	7	12.40	12.18
19 "	1,500	1,500	6-11	12.25	12.14
20 "	2,000	1,895	5-10	12.50	12.05
26 "	750	750	11	12.15	12.08
31 "	2,000	2,000	6	11.80	11.56
1 June	3,000	3,000	5	11.30	11.05
9 "	1,000	1,000	21	11.80	11.51
10 "	1,500	1,500	34	12.50	12.16
13 "	2,000	2,000	17	12.45	12.31
14 "	1,500	1,500	13-16	12.40	12.27
16 "	1,000	1,000	11-14	12.05	11.92
17 "	1,500	1,500	10-13	12.00	11.74
20 "	1,250	1,250	7-10	11.95	11.71
21 "	1,500	1,500	9	12.00	11.52
1 July	4,000	4,000	24-28	11.05	10.71

(1) Repurchase agreements based on competitive bid auctions.

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

(billions of lire)

	Amount offered	Amount taken up	Maturity (days)	Yields	
				Maximum	Weighted average
1988 — 4 July	2,500	2,500	22-25	12.10	11.89
6 "	1,750	1,750	20-23	12.40	12.22
7 "	1,000	1,000	18-22	11.90	11.76
13 "	2,500	2,500	6-16	12.15	11.92
19 "	1,250	1,250	6-10	12.20	12.06
21 "	1,500	1,500	4-8	11.75	11.41
27 "	1,750	1,750	8-34	12.00	11.85
4 Aug.	4,500	4,500	12-26	12.10	11.85
5 "	1,000	868	11-25	12.10	12.00
16 "	2,750	2,750	9-14	11.95	11.55
19 "	1,500	1,500	6-11	11.90	11.72
23 "	1,500	910	2-8	12.10	12.02
30 "	3,000	3,000	16-31	12.00	11.81
31 "	2,750	2,750	15-30	11.65	11.55
2 Sept.	4,000	4,000	28	10.90	10.71
6 "	1,000	1,000	20-24	12.00	11.82
7 "	1,500	1,500	19-23	12.25	12.01
8 "	500	500	18-22	12.05	11.97
13 "	1,750	1,750	13-17	12.10	11.96
16 "	1,000	1,000	7	10.75	11.42
21 "	1,000	1,000	2-9	12.50	12.04
28 "	750	750	28-33	11.50	11.29
29 "	1,000	1,000	27-32	11.30	11.19
3 Oct.	8,500	8,500	22-28	10.55	10.32
4 "	4,000	4,000	21-27	10.75	10.49
6 "	1,000	1,000	19-25	12.00	11.79
14 "	1,000	1,000	3-17	11.95	11.41
21 "	1,000	1,000	10	12.25	12.07
24 "	750	750	7	11.95	11.82
25 "	2,500	2,271	6	12.25	11.73
26 "	1,000	1,000	12	11.50	11.41
4 Nov.	2,000	2,000	11-26	11.95	11.78
8 "	1,000	1,000	27	11.50	11.40
10 "	2,000	2,000	15-20	12.50	11.97
11 "	1,000	930	19	12.55	12.21
1989 — 3 Jan.	8,500	7,923	22-28	12.75	11.31
4 "	1,250	1,250	21-27	12.70	12.48
5 "	1,000	1,000	20-26	12.70	12.58
9 "	2,000	2,000	7-22	12.25	12.11
11 "	2,500	2,500	14-20	12.10	11.95
12 "	2,000	2,000	12-19	11.95	11.84
13 "	1,000	1,000	10-18	12.15	11.86
9 Feb.	2,000	2,000	18-19	13.25	12.96
13 "	1,000	1,000	14-15	12.65	12.58
15 "	2,000	2,000	12-13	13.15	12.96

(1) Repurchase agreements based on competitive bid auctions.

Table a27

Treasury bill auctions

(face value; billions of lire)

		Bills offered	Maturity (days)	Demand for bills from banks and the private sector	Bills allotted at auction: To banks and the private sector: Competitive bid	Other	Subscribed by BI-UIC	Total
					3-month			
1988 —	mid-July ...	3,250	91	4,470	2,545	5	700	3,250
	end-July ...	10,500	94	12,748	9,828	5	667	10,500
	mid-Aug. ...	3,250	91	5,413	3,226	24	—	3,250
	end-Aug. ...	8,000	92	15,517	7,998	2	—	8,000
	mid-Sept. ..	2,500	91	5,188	2,500	—	—	2,500
	end-Sept. ..	8,250	91	14,603	8,248	2	—	8,250
	mid-Oct. ...	4,000	94	2,975	2,845	—	1,155	4,000
	end-Oct. ...	9,000	91	8,873	8,265	2	733	9,000
	mid-Nov. ...	2,000	91	2,102	1,757	2	241	2,000
	end-Nov. ...	8,000	90	6,847	6,763	—	1,237	8,000
	mid-Dec. ...	1,750	90	2,216	1,750	—	—	1,750
	end-Dec. ...	9,250	90	13,088	9,250	—	—	9,250
1989 —	mid-Jan. ...	3,500	88	5,400	3,500	—	—	—
	end-Jan. ...	10,500	88	13,917	10,493	7	—	10,500
	mid-Feb. ...	3,000	90	5,182	2,988	2	—	2,990
					6-month			
1988 —	mid-July ...	3,500	185	3,037	3,034	3	400	3,437
	end-July ...	11,500	185	11,234	11,228	6	226	11,460
	mid-Aug. ...	3,000	182	2,543	2,539	3	300	2,842
	end-Aug. ...	11,000	182	9,332	9,328	4	1,200	10,532
	mid-Sept. ..	2,750	181	2,364	2,364	—	386	2,750
	end-Sept. ..	12,000	181	11,055	11,052	3	945	12,000
	mid-Oct. ...	2,000	182	2,490	2,000	—	—	2,000
	end-Oct. ...	12,000	179	10,969	10,965	4	750	11,719
	mid-Nov. ...	2,500	181	1,979	1,977	2	—	1,979
	end-Nov. ...	9,000	181	8,405	8,403	2	—	8,405
	mid-Dec. ...	2,000	182	1,297	1,297	—	—	1,297
	end-Dec. ...	10,000	182	9,632	9,631	1	—	9,632
1989 —	mid-Jan. ...	3,500	179	2,851	2,851	—	649	—
	end-Jan. ...	11,000	182	11,847	10,998	2	—	11,000
	mid-Feb. ...	3,000	183	3,468	3,000	—	—	3,000
					12-month			
1988 —	mid-July ...	1,500	364	1,428	1,427	1	—	1,428
	end-July ...	10,000	367	8,006	7,997	9	1,700	9,706
	mid-Aug. ...	1,750	365	1,413	1,413	—	300	1,713
	end-Aug. ...	7,500	366	7,070	7,066	4	430	7,500
	mid-Sept. ..	2,250	365	2,268	2,250	—	—	2,250
	end-Sept. ..	9,000	364	10,472	8,991	9	—	9,000
	mid-Oct. ...	2,000	367	3,159	2,000	—	—	2,000
	end-Oct. ...	10,500	365	11,626	10,494	6	—	10,500
	mid-Nov. ...	2,750	365	2,034	2,032	2	—	2,034
	end-Nov. ...	8,750	365	8,746	8,744	2	—	8,746
	mid-Dec. ...	2,000	365	1,532	1,532	—	—	1,532
	end-Dec. ...	9,000	364	11,084	9,000	—	—	9,000
1989 —	mid-Jan. ...	3,500	364	3,632	3,498	2	—	3,500
	end-Jan. ...	13,000	365	15,553	12,996	4	—	13,000
	mid-Feb. ...	4,000	365	4,322	4,000	—	—	4,000

Treasury bill auctions

(prices and yields)

	PRICES		YIELDS (1)					
			Simple			Compound		
	Floor-price	Average tender price	Floor-price	At auction: Competitive bid	At auction: Other	Floor-price	At auction: Competitive bid	At auction: Other
				3-month				
1988 — mid-July	—	97.36	—	10.88	10.66	—	11.33	11.10
end-July	—	97.23	—	11.06	10.86	—	11.52	11.30
mid-Aug.	—	97.29	—	11.17	10.96	—	11.65	11.42
end-Aug.	—	97.31	—	10.97	10.76	—	11.43	11.20
mid-Sept.	—	97.34	—	10.96	10.75	—	11.42	11.19
end-Sept.	—	97.43	—	10.58	10.37	—	11.01	10.78
mid-Oct.	—	97.30	—	10.78	10.57	—	11.21	10.99
end-Oct.	—	97.33	—	11.00	10.79	—	11.47	11.24
mid-Nov.	—	97.29	—	11.17	10.96	—	11.65	11.42
end-Nov.	—	97.28	—	11.34	11.13	—	11.83	11.60
mid-Dec.	—	97.22	—	11.60	11.38	—	12.11	11.88
end-Dec.	—	97.23	—	11.55	11.34	—	12.07	11.83
1989 — mid-Jan.	—	97.31	—	11.47	11.25	—	11.97	11.74
end-Jan.	—	97.35	—	11.29	11.07	—	11.78	11.55
mid-Feb.	—	97.34	—	11.08	10.87	—	11.55	11.32
				6-month				
1988 — mid-July	94.80	94.83	10.82	10.76	10.65	11.11	11.04	10.93
end-July	94.80	94.82	10.82	10.78	10.67	11.11	11.06	10.95
mid-Aug.	94.88	94.89	10.82	10.80	10.69	11.12	11.09	10.98
end-Aug.	94.88	94.89	10.82	10.80	10.69	11.12	11.09	10.98
mid-Sept.	94.79	94.80	11.08	11.06	10.95	11.39	11.37	11.25
end-Sept.	94.77	94.78	11.13	11.11	10.99	11.44	11.42	11.30
mid-Oct.	94.75	94.78	11.11	11.05	10.93	11.42	11.35	11.23
end-Oct.	94.86	94.88	11.05	11.00	10.89	11.36	11.31	11.19
mid-Nov.	94.85	94.86	10.95	10.93	10.81	11.25	11.23	11.11
end-Nov.	94.85	94.86	10.95	10.93	10.81	11.25	11.23	11.11
mid-Dec.	94.83	94.83	10.93	10.93	10.82	11.23	11.23	11.12
end-Dec.	94.71	94.73	11.20	11.16	11.05	11.52	11.47	11.35
1989 — mid-Jan.	94.79	94.80	11.21	11.18	11.07	11.53	11.50	11.38
end-Jan.	94.70	94.73	11.22	11.16	11.05	11.54	11.47	11.35
mid-Feb.	94.67	94.71	11.23	11.14	11.03	11.54	11.45	11.33
				12-month				
1988 — mid-July	89.80	89.85	11.39	11.33	11.27	11.39	11.33	11.27
end-July	89.70	89.70	11.42	11.42	11.36	11.42	11.42	11.36
mid-Aug.	89.75	89.75	11.42	11.42	11.36	11.42	11.42	11.36
end-Aug.	89.70	89.70	11.45	11.45	11.39	11.45	11.45	11.39
mid-Sept.	89.30	89.35	11.98	11.92	11.86	11.98	11.92	11.86
end-Sept.	89.35	89.40	11.95	11.89	11.83	11.95	11.89	11.83
mid-Oct.	89.35	89.45	11.85	11.73	11.67	11.85	11.73	11.67
end-Oct.	89.45	89.50	11.79	11.73	11.67	11.79	11.73	11.67
mid-Nov.	89.65	89.65	11.54	11.54	11.48	11.54	11.54	11.48
end-Nov.	89.65	89.70	11.54	11.48	11.42	11.54	11.48	11.42
mid-Dec.	89.65	89.65	11.54	11.54	11.48	11.54	11.54	11.48
end-Dec.	89.65	89.70	11.58	11.51	11.45	11.58	11.51	11.45
1989 — mid-Jan.	89.65	89.70	11.58	11.51	11.45	11.58	11.51	11.45
end-Jan.	89.65	89.75	11.54	11.42	11.36	11.54	11.42	11.36
mid-Feb.	89.65	89.75	11.54	11.42	11.36	11.54	11.42	11.36

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

Table a28

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 (4)	Bonds of industrial credit institutions (4)
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	10.25	10.05	9.05
1987 — Dec.	12.00	12.37	11.64	11.66	11.39	11.55	10.50	11.19
1988 — Jan.	12.00	12.17	11.36	11.37	10.63	11.08	10.29	10.76
Feb.	12.00	12.28	10.72	10.78	10.50	10.66	10.30	10.84
Mar.	12.00	13.40	10.69	10.78	10.56	10.68	10.29	10.84
Apr.	12.00	12.12	10.65	10.81	10.96	10.80	10.39	10.80
May	12.00	12.17	10.70	10.83	10.98	10.83	10.49	10.76
June	12.00	12.02	10.55	10.63	10.94	10.71	10.47	10.85
July	12.00	12.45	11.48	11.06	11.41	11.29	10.61	10.88
Aug.	12.50	12.33	11.49	11.09	11.45	11.33	10.74	10.93
Sept.	12.50	—	11.11	11.41	11.90	11.47	10.88	11.08
Oct.	12.50	13.01	11.40	11.32	11.73	11.48	10.67	10.86
Nov.	12.50	12.91	11.79	11.23	11.49	11.49	10.61	10.83
Dec.	12.50	14.05	12.08	11.44	11.51	11.68	10.70	11.05
1989 — Jan.	12.50	12.72	11.83	11.48	11.44	11.57	10.64	10.93

	Bank rates (5)							
	ABI prime rate (6)	Lending in lire		Deposit rates		Certificates of deposit		Interbank rates
		Minimum	Average	Maximum	Average	6-month	12-month	
1984 — Dec.	18.00	17.68	....	15.95	....	....	....	17.31
1985 — Dec.	15.88	15.29	16.86	13.43	10.11	13.21	13.61	14.93
1986 — Dec.	13.00	12.54	13.93	10.68	7.61	10.69	10.34	11.51
1987 — Dec.	13.00	12.34	13.79	9.81	6.94	10.18	10.29	10.76
1988 — Jan.	12.63	12.22	13.67	9.79	6.94	10.14	10.22	10.54
Feb.	12.63	11.97	13.55	9.53	6.70	9.98	10.13	10.61
Mar.	12.63	11.94	13.43	9.46	6.69	9.91	10.08	10.87
Apr.	12.63	11.90	13.35	9.50	6.74	9.85	10.07	10.73
May	12.50	11.83	13.24	9.40	6.63	9.75	9.96	10.45
June	12.63	11.84	13.26	9.39	6.56	9.72	9.90	10.50
July	12.63	11.99	13.46	9.41	6.57	9.70	9.89	10.60
Aug.	12.87	12.12	13.69	9.41	6.58	9.70	9.88	10.72
Sept.	13.00	12.39	13.90	9.47	6.63	9.86	9.97	10.93
Oct.	13.00	12.40	13.86	9.55	6.68	10.00	10.04	10.98
Nov.	13.00	12.36	13.77	9.58	6.73	9.98	10.06	11.16
Dec.	13.00	12.34	13.67	9.62	6.77	9.98	10.06	11.73

(1) Average rate weighted according to the premiums charged. – (2) 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) Yields net of withholding tax, based on Milan Stock Exchange Prices. – (5) 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*. – (6) Rates recorded by the Italian Banker's Association (ABI) on unsecured overdraft facilities granted to prime customers. The figures do not include the maxiumum overdraft commission of 1/8 of a percentage point per quarter.

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
1985 — Dec.	82,747	220,053	24,171	25,646	173,610	9,422	17,800	106,014	9,141
1986 — Dec.	88,474	238,584	27,451	29,827	181,329	11,717	20,963	116,636	8,879
1987 — Nov.	97,482	246,729	32,446	22,457	193,389	13,627	24,186	97,835	9,318
Dec.	97,979	256,034	32,782	25,168	193,417	13,076	24,043	111,310	9,301
1988 — Jan.	105,504	258,557	34,447	17,221	181,186	13,293	24,677	84,543	7,718
Feb.	103,271	253,556	35,029	16,537	175,969	13,364	24,843	84,365	7,502
Mar.	101,680	253,759	34,473	15,176	175,700	13,574	24,846	85,419	7,873
Apr.	100,063	265,411	33,973	19,197	176,001	13,742	25,018	82,743	7,813
May	101,332	268,426	35,031	18,570	175,768	13,745	25,294	87,175	7,786
June	101,010	269,570	36,809	19,478	173,444	13,876	24,947	90,920	7,646
July	102,126	278,600	37,789	20,271	168,407	14,270	25,157	85,172	6,838
Aug.	103,992	273,504	37,045	20,971	171,984	14,165	25,466	88,615	6,877
Sept.	105,290	272,313	37,237	24,372	173,007	14,392	25,686	92,824	7,669
Oct.	105,335	279,878	38,372	23,899	173,331	14,528	25,942	90,368	8,471
Nov.	110,932	289,607	40,210	21,886	174,808	14,647	26,078	93,672	8,966
Dec.	....	(299,808)	(41,990)	....	....	....	....	....	....

	LIABILITIES								
	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)
1985 — Dec.	457,743	250,282	6,467	8,740	94,338	4,459	43,166	25,806	377
1986 — Dec.	498,685	281,612	4,815	4,407	103,313	5,338	51,585	32,108	307
1987 — Nov.	496,588	276,553	3,753	6,078	93,262	4,771	61,721	37,772	1,206
Dec.	532,697	302,862	3,209	5,711	103,761	5,887	61,828	36,691	1,066
1988 — Jan.	516,895	287,980	3,215	9,226	85,450	7,148	61,846	38,078	993
Feb.	508,064	281,994	3,320	9,068	80,286	6,822	62,018	40,261	1,109
Mar.	509,191	283,203	3,324	7,731	78,901	6,322	64,693	39,386	1,142
Apr.	514,416	288,296	3,528	7,668	77,271	5,668	67,256	42,489	897
May	512,615	286,372	3,786	7,755	80,201	4,752	67,342	40,830	788
June	519,370	291,977	3,446	7,782	83,868	5,912	67,117	40,928	750
July	523,646	294,464	3,919	7,821	76,397	5,470	67,346	41,014	784
Aug.	523,178	291,973	3,789	7,592	81,219	5,552	68,084	39,635	780
Sept.	530,909	297,929	3,786	7,578	86,081	5,180	68,094	39,151	832
Oct.	536,668	302,568	3,636	7,929	80,199	5,067	67,998	....	858
Nov.	530,496	295,202	3,821	7,627	85,396	5,560	68,025	....	875
Dec.	(567,696)	....	....	....	....	....	....	....	....

(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) Banker's 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.

Principal assets and liabilities of the special credit institutions

(billions of lire)

	ASSETS									
	Cash and liquid assets		Government securities			Loans				
	of which: interbank deposits	Total	Total	of which: Treasury bills	of which: Treasury credit certificates	Domestic (1)	of which: industrial	of which: real estate	Foreign	On behalf of the Treasury
1984 — Dec.	4,718	4,964	15,023	2,367	12,199	125,302	66,144	32,927	4,585	9,193
1985 — Dec.	4,087	4,601	16,441	906	14,744	135,988	72,323	36,096	3,781	8,593
1986 — Dec.	4,470	4,574	14,511	678	12,990	152,813	82,890	40,823	3,187	8,057
1987 — Dec.	5,045	5,159	10,411	797	8,948	173,533	93,542	48,913	4,361	7,291
1988 — Jan.	7,592	7,877	12,752	845	11,307	173,702	93,389	49,313	4,367	6,745
Feb.	8,357	8,519	14,529	1,071	12,790	175,939	94,343	50,118	4,406	6,744
Mar.	7,571	7,677	15,536	1,343	13,204	179,013	96,154	51,158	4,570	6,744
Apr.	7,287	7,376	16,206	1,772	12,696	179,870	96,063	51,963	4,567	6,744
May	6,562	6,653	16,149	2,508	11,804	182,326	97,192	53,002	4,639	6,724
June	6,164	6,430	17,292	2,978	12,478	181,483	96,976	52,939	4,701	6,248
July	5,203	5,516	17,189	3,616	11,342	184,711	99,174	53,814	4,732	6,998
Aug.	5,914	6,278	15,791	2,655	10,906	186,802	99,992	54,469	4,756	6,997
Sept.	5,489	5,623	15,817	3,027	10,206	189,996	102,057	55,307	4,705	6,997
Oct.	5,116	5,299	13,901	1,877	9,247	192,200	102,796	56,542	4,658	7,827
Nov.	4,919	5,103	13,630	1,792	8,697	194,185	103,437	57,583	4,628	7,789
Dec.	....	....	....	....	....	*(198,900)*	....	....	....	....

	LIABILITIES									
	Certificates of deposits	Bonds				Interbank current accounts	Public funds	*Medio-credito centrale*	Foreign loans (2)	Other
		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	5,233	4,771	2,422	17,852	7,596
1985 — Dec.	25,549	95,022	37,736	36,192	7,145	6,010	5,365	2,521	20,051	7,739
1986 — Dec.	28,258	102,193	41,234	39,693	6,089	5,779	6,522	2,538	21,878	9,884
1987 — Nov.	28,896	112,235	46,285	44,718	5,038	5,487	7,132	2,874	24,763	10,177
Dec.	30,878	113,681	46,137	45,944	5,036	6,104	7,537	3,038	26,861	7,620
1988 — Jan.	33,599	114,208	46,303	46,402	4,474	4,377	7,288	2,925	27,047	11,524
Feb.	36,720	114,761	46,110	47,213	4,468	4,292	7,535	3,042	27,330	11,989
Mar.	39,307	115,824	46,268	48,013	4,466	4,935	7,568	3,096	27,725	10,619
Apr.	40,092	116,477	46,939	48,186	4,454	5,013	7,351	3,143	28,132	10,101
May	40,353	117,452	47,467	48,597	4,432	4,890	7,464	3,197	28,517	10,184
June	42,037	118,389	47,824	49,125	4,402	4,949	7,930	3,238	29,045	6,164
July	42,420	118,426	48,045	49,323	3,995	4,497	7,689	3,262	29,442	9,416
Aug.	42,210	118,896	48,096	49,655	3,960	4,301	7,862	3,355	30,075	9,965
Sept.	42,133	119,825	47,626	50,447	3,956	4,467	7,947	3,372	30,904	10,533
Oct.	42,005	120,195	48,011	50,683	3,956	5,434	7,982	3,395	31,011	9,908
Nov.	42,492	120,423	47,973	50,982	3,956	6,186	7,997	3,452	31,469	9,362

(1) Excluding financing of compulsory stockpiling. — (2) Gross of exchange rate variations.

Table a31

Loans by branch of economic activity and type of enterprise

(billions of lire; % changes)

	BANKS				SPECIAL CREDIT INSTITUTIONS			
	Total as of Nov. 1988	% change in the 12 months ending			Total as of Nov. 1988	% change in the 12 months ending		
		Dec. 87	June 88	Nov. 88		Dec. 87	June 88	Nov. 88
General government	9,512	9.9	6.4	8.8	23,435	3.7	2.6	2.5
Credit and insurance institutions	20,058	4.2	2.5	21.4	8,283	15.4	−19.2	−9.4
Non-financial firms	262,397	8.3	12.2	18.4	135,433	12.9	17.8	16.9
Agriculture, forestry and fisheries	10,216	6.3	10.5	11.7	9,505	12.0	13.7	15.8
Industry	153,014	5.8	9.8	15.3	70,124	8.2	9.6	9.1
Mining and quarrying	2,307	−5.6	−4.7	−9.6	1,202	13.0	1.8	6.7
Food and related products	15,947	7.3	13.3	17.3	6,902	10.8	12.0	10.1
Textiles	11,687	16.0	16.5	16.4	2,571	8.2	6.5	1.4
Clothing, footwear, hides & leather	11,491	12.7	12.4	14.0	1,424	13.8	15.4	15.2
Wood, wooden furniture & fittings	6,494	9.5	10.4	14.5	1,396	7.4	5.4	7.6
Basic metals	7,806	−6.7	5.4	35.9	4,122	16.9	22.8	6.8
Engineering	33,641	4.9	11.3	18.8	14,397	6.7	6.5	8.1
Vehicles	5,932	−0.9	−4.9	−8.9	3,768	−3.8	3.0	9.1
Non-ferrous mineral products	5,113	3.8	5.9	10.2	2,612	8.0	5.5	−0.8
Chemicals, oil coal products	11,442	5.9	11.8	10.9	4,806	0.6	2.7	10.6
Rubber and plastic	4,180	15.9	17.5	18.8	1,278	8.8	3.7	3.1
Paper, printing, publishing and related products	5,435	14.9	15.1	17.9	1,877	1.6	4.1	16.0
Still and motion picture equipment, sundry manufactures	1,364	12.7	14.7	31.8	606	34.2	43.7	52.6
Construction and plant installation	28,395	6.0	10.1	14.0	19,839	9.6	12.2	11.6
Production and distribution of power, gas and water	1,780	−37.4	−39.4	52.5	3,324	15.5	18.6	4.9
Distributive trades, other commercial activities and miscellaneous services	75,600	15.9	18.4	22.3	26,531	31.8	32.1	28.5
Lodging and catering	3,376	18.2	16.0	20.9	3,056	25.8	29.8	27.0
Transport and communications	9,469	6.1	7.7	36.7	15,244	5.4	8.7	2.9
Coordination and financial services to enterprises	10,722	−1.4	11.8	30.0	10,973	25.6	89.5	97.5
Non-profit institutions, households and unclassifiable	15,116	13.0	14.9	22.4	6,528	61.0	47.8	44.2
TOTAL (RESIDENT CUSTOMERS)	307,083	8.2	11.5	18.4	173,679	12.5	13.9	14.0
of which: public enterprises	23,767	−5.9	−6.2	11.7	30,004	7.8	12.5	9.3
of which: state controlled	18,015	−9.0	−10.6	−2.0	23,162	3.9	7.5	7.7
leading private sector firms	45,941	−7.5	−0.2	6.3	33,993	5.2	5.9	6.4
other	212,747	14.9	17.1	22.5	79,719	19.7	20.7	21.4

Source: Bank of Italy, Central Credit Register.

Table a32

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	6,004
1983	69,942	7,640	2,374	79,956	1,948	562	29,975	—	47,471	10,899
1984	63,693	4,315	2,035	70.043	6,792	255	11,190	912	50,894	9,774
1985	94.074	5,178	2,195	101,447	8,910	504	27,336	11,656	53,041	12,220
1986	87,761	6,805	6,071	100,638	7,911	830	6,209	27,723	57,965	18,872
1987	56,505	11,012	4,038	71,554	1,420	485	11,690	−3,845	61,805	10,432
1986 — 4th qtr.	22,271	4,210	1,868	28,349	6,484	99	8,247	2,558	10,960	6,800
1987 — 1st qtr.	22,849	1,385	1,279	25.513	−3,881	61	−7,609	2,418	34,524	2,909
2nd "	21.818	3,786	238	25,842	4,950	567	6,915	493	12,918	1,768
3rd "	12,249	2,986	1,179	16,414	2,542	1	8,175	−3,633	9,330	3,556
4th "	−412	2,855	1,341	3,785	−2,191	−143	4,209	−3,123	5,033	2.199
1988 — 1st qtr.	11,889	2,158	247	14,294	−1,137	−133	−17,745	−3,632	36,941	(1,254)
2nd "	13,156	2.701	145	16,002	−158	298	−1,579	−3,666	21,107	(1,244)
3rd "	11,005	1,533	−147	12,392	2.062	197	−385	−2,502	13,020	(1,851)
1987 — Dec.	−1,227	1,414	3	190	1,515	−98	275	−42	−1,461	1,368
1988 — Jan.	4,044	497	−394	4,148	6,122	−51	−13,025	−893	11,994	(201)
Feb.	1,471	115	443	2,029	−4,295	−13	−5,561	−2,287	14,186	(593)
Mar.	6,373	1,546	198	8,117	−2,964	−70	841	−452	10,761	(459)
Apr.	7,754	739	−146	8.347	326	−6	168	−922	8,781	(303)
May	4,949	950	78	5,977	−1,592	−6	139	−1,346	8,782	(409)
June	453	1,012	214	1,678	1,108	310	−1,885	−1,398	3,544	(532)
July	2.204	196	−184	2,215	435	−28	−5,124	−1,033	7,965	(689)
Aug.	1,026	437	−94	1,369	−3,929	170	3,740	−675	2,063	(288)
Sept.	7,775	901	132	8,807	5,555	55	999	−794	2,992	(874)
Oct.	(7,714)	(329)	(−402)	(7,641)	174	—	49	−195	(7,613)	(395)
Nov.	(13,766)	(214)	(519)	(14,499)	....	....	....	135	....	(783)

Table a33

Issue conditions of government securities

Treasury credit certificates

ABI number	Maturity	Date of issue	Price at issue	Yield at issue (1) gross	Yield at issue (1) net	Amount taken up (lire bn.)	Spread	First coupon gross	First coupon net
13009	1.1.93	4.1.88	99.50	12.13	10.58	7,000	0.30	6.00	5.2500
13011	1.2.93	1.2.88	99.25	11.49	10.02	3,100	0.30	5.80	5.0750
13013	1.3.93	1.3.88	99.25	11.40	9.94	3,000	0.30	5.80	5.0750
13015	1.4.93	1.4.88	99.25	11.49	10.02	1,100	0.30	5.80	5.0750
13017	1.5.93	2.5.88	99.25	12.23	10.67	2,000	0.50	5.80	5.0750
13019	1.6.93	1.6.88	99.25	12.23	10.67	1,400	0.50	5.80	5.0750
13020	1.7.93	1.7.88	99.25	12.19	10.63	1,650	0.50	6.00	5.2500
13022	1.8.93	1.8.88	99.25	12.65	11.04	900	0.50	6.00	5.2500
13023	1.9.93	1.9.88	99.10	12.78	11.14	3,500	0.50	6.25	5.4685
13025	1.10.93	3.10.88	99.10	13.26	11.56	2,700	0.50	6.25	5.4685
13027	1.11.93	2.11.88	99.10	13.06	11.38	1,000	0.50	6.25	5.4685
13032	1.1.94	2.1.89	99.10	12.87	11.22	3,500	0.50	6.25	5.4685
13033	1.2.94	1.2.89	99.10	12.78	11.14	2,573	0.50	6.25	5.4685

Treasury bonds

ABI number	Maturity	Date of issue	Price at issue	Yield at issue gross	Yield at issue net	Amount taken up (lire bn.)	Coupon gross	Coupon net
12627	1.2.92	1.2.88	99.00	11.62	10.13	3,041	5.50	4.8125
12628	1.3.90	1.3.88	98.75	11.53	10.06	3,988	5.25	4.5935
12629	15.3.90	15.3.88	98.85	11.47	10.00	2,000	5.25	4.5935
12630	1.4.90	1.4.88	99.25	11.21	9.78	3,500	5.25	4.5935
12631	1.4.92	1.4.88	98.00	11.97	10.44	3,000	5.50	4.8125
12632	15.4.90	15.4.88	98.85	11.43	9.98	1,000	5.25	4.5935
12633	1.5.90	2.5.88	99.00	11.37	9.92	3,191	5.25	4.5935
12634	1.5.92	2.5.88	97.50	12.12	10.58	1,684	5.50	4.8125
12635	18.5.90	18.5.88	99.00	11.37	9.92	1,000	5.25	4.5935
12636	16.6.90	16.6.88	99.00	11.34	9.90	600	5.25	4.5935
12637	1.7.90	1.7.88	99.15	11.80	10.29	4,500	5.50	4.8125
12638	1.7.92	1.7.88	98.35	12.38	10.80	1,456	5.75	5.0310
12639	1.8.90	1.8.88	99.15	11.81	10.31	2,800	5.50	4.8125
12640	1.8.92	1.8.88	97.40	12.70	11.08	2,100	5.75	5.0310
12641	1.9.90	1.9.88	99.10	12.35	10.77	6,500	5.75	5.0310
12642	1.9.92	1.9.88	98.80	13.30	11.60	4,500	6.25	5.4685
12643	1.10.90	3.10.88	99.10	12.42	10.83	6,501	5.75	5.0310
12644	1.10.92	3.10.88	98.80	13.32	11.62	12,026	6.25	5.4685
12645	1.11.91	2.11.88	99.10	12.20	10.64	3,000	5.75	5.0310
12646	1.11.93	2.11.88	99.10	13.15	11.47	5,000	6.25	5.4685
12647	17.11.93	17.11.88	100.20	12.83	11.18	3,500	6.25	5.4685
12648	21.12.91	21.12.88	99.25	12.13	10.58	546	5.75	5.0310
12649	1.1.94	2.1.89	99.80	12.94	11.28	3,082	6.25	5.4685
12650	1.2.93	1.2.89	99.50	13.06	11.38	1,607	6.25	5.4685

Treasury certificates in ECUs

ABI number	Maturity	Date of issue	Price at issue	Yield at issue gross	Yield at issue net	Amount taken up (ECU mill.) (2)	Lira/ECU exchange rate at issue	Coupon gross	Coupon net
13014	21.3.92	21.3.88	100.00	8.48	7.42	750	1,536.90	8.50	7.4375
13016	26.4.92	26.4.88	100.00	8.49	7.43	500	1,544.11	8.50	7.4375
13018	25.5.92	25.5.88	100.00	8.49	7.43	1,000	1,545.18	8.50	7.4375
13021	25.7.93	25.7.88	100.00	8.74	7.65	1,000	1,542.02	8.75	7.6560
13024	28.9.93	28.9.88	100.00	8.74	7.65	1,000	1,544.67	8.75	7.6560
13026	26.10.93	26.10.88	100.00	8.64	7.56	1,000	1,542.08	8.65	7.5685
13028	28.11.93	28.11.88	100.00	8.49	7.43	1,000	1,539.91	8.50	7.4375
13031	28.12.93	28.12.88	100.00	8.74	7.65	1,000	1,528.62	8.75	7.6560

(1) Expected yield in the months the first coupon matures on the assumption that rates are unchanged over the period, determined on the basis of 12-month Treasury bill rate. – (2) Domestic market only.

Table a34

Treasury credit certificates, Treasury certificates in ECUs, Treasury discount certificates, index-linked Treasury certificates, Treasury bonds and investment funds

	Expected yields (1)					Total return indices (2)					
	Treasury credit certifi-cates	Treasury certifi-cates in ECUs	Treasury discount certificates	Index-linked Treasury certificates	Treasury bonds	Treasury credit certificates	Treasury certificates in ECUs	Treasury discount certificates	Index-linked Treasury certificates	Treasury bonds	Investment funds
1983	19.82	13.10	—	—	17.17	159.09	110.21	—	—	100.00	—
1984	16.98	11.51	—	3.40	15.44	191.33	132.51	—	97.63	109.39	93.29
1985	14.68	9.88	—	4.61	13.78	226.18	162.52	—	101.12	126.89	117.10
1986	12.41	8.52	—	4.49	11.47	259.08	187.57	—	117.76	146.91	161.60
1987	10.66	8.44	—	4.57	10.52	289.14	207.29	—	132.34	163.43	169.68
1988	11.25	8.10	11.67	5.39	10.47	316.26	233.11	101.02	141.33	180.86	167.63
1987 — 1st qtr.	10.22	8.45	—	4.36	9.84	280.27	197.82	—	128.21	159.56	170.93
2nd "	9.89	8.15	—	4.62	10.14	288.33	207.38	—	130.39	162.30	175.04
3rd "	10.92	8.29	—	4.41	11.11	290.82	211.07	—	135.04	163.56	170.78
4th "	11.60	8.85	—	4.90	11.00	297.15	212.90	—	135.71	168.30	161.98
1988 — 1st qtr.	10.71	8.18	—	5.03	10.23	306.51	223.83	—	139.13	174.75	160.20
2nd "	11.13	7.86	11.37	5.38	10.34	310.82	233.53	99.32	140.72	178.78	163.73
3rd "	11.52	8.08	11.88	5.25	10.67	319.50	236.24	100.18	142.84	182.53	169.68
4th "	11.66	8.30	11.75	5.88	10.65	328.23	238.85	103.57	142.61	187.39	176.90
1988 — Jan.	10.92	8.26	—	5.24	10.22	305.18	221.15	—	136.35	173.42	158.95
Feb.	10.62	8.19	—	4.82	10.24	305.88	223.26	—	140.51	174.68	157.96
Mar.	10.58	8.09	—	5.04	10.22	308.46	227.08	—	140.52	176.16	163.68
Apr.	10.86	7.89	11.09	5.33	10.30	310.26	231.59	100.00	140.13	177.43	164.53
May	11.21	7.82	11.34	5.55	10.36	310.20	234.18	99.41	140.21	178.69	162.26
June	11.33	7.87	11.69	5.26	10.35	311.99	234.83	98.56	141.83	180.23	164.40
July	11.41	7.92	11.69	5.20	10.51	315.51	235.56	99.88	141.93	181.34	168.19
Aug.	11.45	8.10	11.82	5.20	10.67	320.00	235.91	100.21	143.15	182.53	170.40
Sept.	11.69	8.22	12.14	5.35	10.83	323.00	237.25	100.45	143.45	183.72	170.45
Oct.	11.68	8.24	11.75	5.49	10.66	326.14	238.48	102.80	143.74	185.79	176.06
Nov.	11.63	8.24	11.64	5.78	10.61	328.08	239.53	103.89	143.17	187.49	177.14
Dec.	11.66	8.42	11.85	6.38	10.69	330.48	238.54	104.01	140.93	188.88	177.51
1989 — Jan.	11.66	8.47	11.88	6.40	10.62	333.70	239.31	104.80	142.08	190.72	181.11

(1) The expected yield on Treasury credit certificates and Treasury discount 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; Treasury discount certificates, 14 April 1988; index-linked Treasury certificates, 2 May 1984; Treasury bonds, 30 December 1983; and investment funds, 31 December 1984.

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: 3-month (4)	Total domestic credit: 12-month	Loans to the non-state sector: 3-month (4)	Loans to the non-state sector: 12 month
1983	120,629	35,432	85,197	—	20.7	—	13.2
1984	144,077	52,368	91,708	—	20.4	—	17.1
1985	153,728	46,447	107,281	—	18.1	—	12.9
1986	152,193	45,480	106,715	—	15.2	—	11.4
1987	151,487	45,654	105,834	—	13.1	—	10.3
1988	194,842	76,777	118,065	—	14.9	—	15.7
1986 — Nov.	20,863	6,311	14,552	4.8	16.1	4.0	13.0
Dec.	17,851	12,696	5,155	3.7	15.2	3.4	11.4
1987 — Jan.	4,562	3,951	611	3.0	15.9	3.2	13.2
Feb.	12,459	1,790	10,669	2.8	15.7	3.5	13.9
Mar.	11,822	−871	12,693	3.2	15.3	2.9	13.1
Apr.	20,452	5,269	15,183	4.1	15.0	2.1	12.5
May	13,267	3,807	9,460	4.2	15.0	2.6	13.1
June	−2,105	2,097	−4,202	3.1	15.5	3.6	14.1
July	23,220	9,473	13,747	2.9	14.8	3.5	12.9
Aug.	4,566	−4,623	9,189	2.4	14.8	2.2	12.8
Sept.	8,059	−6,406	14,465	3.3	13.9	0.5	10.7
Oct.	15,462	8,243	7,218	2.8	13.5	0.8	9.8
Nov.	18,762	9,375	9,388	3.1	13.0	1.7	10.4
Dec.	20,962	13,548	7,414	3.0	13.1	2.9	10.3
1988 — Jan.	3,682	3,689	−8	2.6	13.0	3.5	10.1
(5) Feb.	8,864	−1,631	10,495	2.4	12.5	2.6	9.3
Mar.	18,217	2,875	15,342	3.1	12.9	2.9	10.2
Apr.	23,547	11,377	12,170	4.1	13.0	3.2	11.4
May	17,163	6,414	10,748	4.7	13.1	4.9	11.8
June	2,086	1,670	417	3.6	13.5	5.0	11.6
July	25,015	12,940	12,075	3.3	13.4	4.3	12.2
Aug.	5,879	−3,854	9,733	2.7	13.5	3.0	12.5
Sept.	19,169	1,462	17,707	4.0	14.3	3.1	14.4
Oct.	20,702	11,674	9,029	3.8	14.5	3.1	14.8
Nov.	28,977	14,174	14,803	4.5	15.1	4.4	15.5
Dec.	21,541	15,987	5,554	3.5	14.9	3.9	15.7

(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.

Table a36

Monetary aggregates and their counterparts

(changes in billions of lire)

	1985	1986	1987 Year	1987 Jan.-Sept.	1988 July	1988 Aug.	1988 Sept.	1988 Jan.-Sept.
A) BI-UIC								
ASSETS								
Foreign sector *(a1)*	–13,651	3,489	6,775	395	3,808	1,634	–2,158	5,156
State sector *(a2)* (1)	27,482	10,891	6,897	13,270	2,367	–3,702	4,262	1,082
Banks *(a3)*	5,674	–3,360	328	–2,231	760	–381	–837	1,240
Special credit institutions *(a4)*	–273	458	90	53	–41	–45	376	139
Other *(a5)*	–399	–909	–1,479	–6,596	–1,639	718	–630	–2,162
LIABILITIES								
Non-state sector *(a6)*	3,967	3,036	4,171	–868	3,221	–3,215	347	–1,017
Banks *(a7)*	14,865	7,532	8,439	5,760	2,034	1,440	664	6,471
B) Banks								
ASSETS								
BI-UIC *(b1=a7)*	14,865	7,532	8,439	5,760	2,034	1,440	664	6,471
Foreign sector *(b2)*	5,299	–6,454	–5,573	–1,925	–84	1,564	–81	–3,296
State sector *(b3)* (1)	11,624	7,575	6,496	–4,625	–870	4,889	3,139	–10,412
Non-state sector *(b4)*	30,126	28,166	25,798	4,445	9,800	–5,772	–1,212	18,556
Special credit institutions *(b5)*	1,123	6	1,446	–1,188	–1,638	–215	2,235	–5,045
Other *(b6)*	–15,400	345	–1,695	–6,441	–1,641	–2,200	1,780	–255
LIABILITIES								
Non-state sector:								
current accounts *(b7)*	22,296	29,808	20,045	–6,254	3,313	–2,300	5,568	–4,375
savings deposits *(b8)*	13,777	1,473	2,193	–5,911	875	780	175	–15,846
repurchase agreements *(b9)*	3	199	1,460	2,445	1,912	59	–117	4,762
bank CDs *(b10)*	5,753	8,128	10,492	7,699	917	1,239	1,624	19,017
BI - UIC *(b11=a3)*	5,674	–3,360	328	–2,231	760	–381	–837	1,240
State sector *(b12)*	134	921	393	278	–177	308	113	1,220

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

Monetary aggregates and their counterparts

(changes in billions of lire)

	1985	1986	1987 Year	1987 Jan.-Sept.	1988 July	1988 Aug.	1988 Sept.	1988 Jan.-Sept.
			C) State sector					
DOMESTIC BORROWING REQUIREMENT *(c1)*	114,848	109,307	108,146	83,801	12,205	10,132	17,866	90,519
LIABILITIES TOWARDS:								
Non-state sector								
PO savings: current accounts *(c2)*	2,221	−479	702	−195	−72	−9	981	−697
savings deposits *(c3)*	7,788	10,553	12,099	4,819	389	570	371	5,158
Treasury bills and other government securities *(c4)*	58,042	53,017	90,065	78,373	8,654	11,141	8,668	91,105
BI - UIC *(c5=a2)*	27,482	10,891	6,897	13,270	2,367	−3,702	4,262	1,082
Bank *(c6=b3−b12)*	11,490	6,654	6,102	−4,903	−692	4,581	3,026	−11,632
Other *(c7)*	7,826	28,671	−7,719	−7,563	1,560	−2,449	558	5,504
			D) Monetary aggregates and their counterparts *(consolidated account of liquidity-creating bodies)*					
MONETARY AGGREGATES								
M1 *(d1=a6+b7+c2)*	28,484	32,366	24,918	−7,318	6,462	−5,524	6,896	−6,089
Savings deposits *(d2=b8+c3)*	21,565	12,027	14,292	−1,092	1,264	1,350	546	−10,688
Repurchase agreements *(d3=b9)*	3	199	1,460	2,445	1,912	59	−117	4,762
M2A *(d4=d1+d2+d3)*	50,051	44,591	40,669	−5,965	9,639	−4,115	7,325	−12,015
Bank CDs *(d5=b10)*	5,753	8,128	10,492	7,699	917	1,239	1,624	19,017
M2 *(d6=d4+d5)*	55,805	52,720	51,161	1,734	10,556	−2,876	8,950	7,002
SOURCES								
Foreign sector *(d7=a1+b2)*	−8,352	−2,965	1,202	−1,530	3,724	3,198	−2,239	1,860
State sector *(d8=c1−c4−c7)*	48,981	27,620	25,800	12,991	1,991	1,440	8,640	−6,089
Non-state sector *(d9=b4)*	30,126	28,166	25,798	4,445	9,800	−5,772	−1,212	18,556
Special credit institutions *(d10=a4+b5)*	850	464	1,535	−1,135	−1,679	−260	2,611	−4,907
Other *(d11=a5+b6)*	−15,799	−564	−3,174	−13,037	−3,280	−1,482	1,150	−2,418

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	616,395	12.4	11.3	12.1	14.1
1985 — Dec.	303,536	549,141	562,427	687,433	10.4	10.0	11.0	11.6
1986 — Nov.	304,475	548,355	568,636	702,265	11.3	8.7	9.9	8.2
Dec.	335,901	593,732	615,147	743,943	10.7	8.1	9.4	8.2
1987 — Jan.	321,228	580,558	606,186	737,455	10.0	7.8	9.6	7.7
Feb.	314,238	571,470	599,339	731,883	10.1	8.3	10.4	7.7
Mar.	316,450	573,014	602,319	736,308	9.8	8.5	10.8	7.6
Apr.	319,728	576,843	606,947	741,695	10.5	9.3	11.6	8.6
May	319,187	576,569	607,248	743,086	10.6	9.8	12.0	9.0
June	325,090	581,660	612,354	746,953	11.5	10.2	12.4	9.4
July	328,026	585,681	614,923	755,476	11.5	10.2	12.0	10.0
Aug.	324,196	583,400	612,093	757,930	11.2	9.8	11.6	10.4
Sept.	328,584	587,768	616,881	771,579	10.2	9.2	10.8	11.2
Oct.	332,258	591,775	621,504	779,218	10.0	8.8	10.3	11.5
Nov.	330,374	590,637	621,517	786,002	8.5	7.7	9.3	11.9
Dec.	360,819	634,402	666,309	828,815	7.4	6.8	8.3	11.4
1988 — Jan.	344,116	614,514	651,561	821,451	7.1	5.8	7.5	11.4
(5) Feb.	336,032	600,951	641,519	818,650	6.9	5.2	7.0	11.9
Mar.	338,491	600,991	644,029	825,417	7.0	4.9	6.9	12.1
Apr.	342,269	604,757	648,711	828,970	7.1	4.8	6.9	11.8
May	338,955	600,605	646,286	829,187	6.2	4.2	6.4	11.6
June	346,896	609,538	656,681	840,907	6.7	4.8	7.2	12.6
July	353,358	619,177	667,237	855,046	7.7	5.7	8.5	13.2
Aug.	347,834	615,062	664,361	859,520	7.3	5.4	8.5	13.4
Sept.	354,730	622,387	673,311	874,329	8.1	6.0	9.2	13.3
Oct.	358,444	626,617	679,672	884,969	8.0	5.8	9.3	13.6
Nov.	351,482	619,517	674,210	....	6.4	4.8	8.5	....
Dec.	....	662,517	718,210	....	....	4.4	7.8	....

(1) Notes and coin and current accounts. — (2) M1 plus savings deposits and banks' securities repurchase agreements with customers. — (3) M2A plus bank CDs conforming with the Ministerial Decree of 28.12.82. — (4) M2 plus bankers' acceptances and Treasury bills. Until 1983, M3 included Treasury bills held by the foreign sector. — (5) Provisional.

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

(changes in billions of lire)

	Financial assets (1)	Financing of the non-state sector by:							State sector (5)	Foreign sector (6)	Unclassified
		Banks (2)	Special credit institutions (2)	Bonds	State sector (3)	Shares	Other domestic liabilities (4)	Foreign sector			
1983	123,703	21,462	11,549	2,421	14,139	9,335	3,000	1,405	71,866	706	−12,180
1984	138,828	35,930	14,469	1,969	10,780	6,824	3,300	1,573	82,507	−7,254	−11,270
1985	147,482	33,338	11,409	1,700	11,837	9,877	4,192	3,108	97,339	−7,761	−17,555
1986	168,462	23,463	16,896	5,120	9,216	20,534	5,092	−1,737	97,484	−1,311	−6,295
1987	165,178	22,136	19,877	3,640	8,489	7,300	4,700	3,453	102,239	−3,144	−3,513
1988	....	52,209	24,910	−342	....	....	....	....	109,208	....	....
1986 — Nov.	11,147	3,846	1,802	663	659	1,895	297	39	13,953	−816	−11,190
Dec.	46,287	8,388	3,601	707	462	526	283	817	4,956	−2,070	28,617
1987 — Jan.	5,033	3,889	63	−1	555	26	−13	438	−97	608	−436
Feb.	8,228	−183	1,654	319	616	454	870	86	10,673	−766	−5,495
Mar.	13,506	−3,827	2,122	835	1,014	818	512	1,876	11,809	−730	−922
Apr.	12,514	4,017	1,154	97	669	−232	135	656	14,653	357	−8,993
May	7,853	2,874	1,057	−123	541	−56	242	100	9,073	−1,514	−4,339
June	8,780	1,789	145	163	482	881	771	−57	−4,736	278	9,064
July	18,775	6,306	2,555	612	1,391	896	−246	565	12,406	517	−6,228
Aug.	6,618	−4,991	390	−22	557	555	507	−457	8,850	1,020	209
Sept.	14,138	−8,477	1,676	395	727	2,064	807	1,250	13,486	−27	2,237
Oct.	13,041	5,187	2,601	455	841	−449	536	537	7,688	−46	−4,309
Nov.	8,169	6,011	2,463	901	795	724	465	−972	11,182	−1,630	−11,770
Dec.	48,523	9,542	3,997	8	302	1,618	113	−568	7,252	−1,211	27,468
1988 — Jan.	3,876	3,622	470	−401	507	72	381	971	−97	−116	−1,532
(7) Feb.	12,875	−4,378	2,339	408	609	517	776	450	10,392	−1,463	3,225
Mar.	19,434	−333	3,148	61	2,752	110	334	1,552	12,789	−1,783	803
Apr.	13,263	10,955	542	−119	1,438	−77	−100	353	10,731	−1,896	−8,563
May	8,510	3,852	2,478	84	849	−158	210	581	9,863	−2,505	−6,745
June	14,708	2,497	−852	25	804	126	154	125	−332	374	11,787
July	21,773	9,770	3,362	−192	813	689	−64	....	11,897	−182	....
Aug.	9,645	−5,856	2,091	−89	1,181	288	170	....	8,695	1,470	....
Sept.	17,862	−1,428	2,759	131	370	874	432	....	17,970	−1,518	....
Oct.	19,823	9,849	2,218	−393	1,182	395	605	....	7,991	....	....
Nov.	....	11,624	2,015	535	1,022	....	−103	....	14,666	....	....
Dec.	....	12,038	4,339	−390	....	....	....	....	4,641	....	....

(1) Until 1983, financial assets included government securities held by the foreign sector. – (2) Adjusted for securities issued to fund debts; foreign currency bank loans adjusted for exchange rate variations. – (3) Loans and equity participations of the Treasury and loans of the Deposits and Loans Fund. Net of the funding of the debts of municipalities and enterprises. – (4) Includes claims of BI-UIC, bankers' acceptances held by the non-state sector, estimated atypical securities and credit institutions' bad debts. – (5) Net of funding of debts of health and security institutions. – (6) Current account balance on a settlements basis. – (7) Provisional.

Economic policy provisions

Fiscal measures

Decree Laws 512/88 and 21/89 extended the validity of the previously approved increase in the VAT rate from 18 to 19 per cent and the excise tax on a number of oil products and methane gas.

Decree Law 550/88 reduced the number of personal income tax brackets and modified the rates and deductions. The conventional system of assessing VAT and income tax available to the self-employed and small business was revised and a condonation introduced covering these types of tax for taxpayers who used the conventional system in 1988. The Decree also raised the minimum VAT rate from 2 to 4 per cent; this affects a number of food products, in particular, and also includes books, daily newspapers and magazines, which were not formerly liable. A tax was introduced on the concession of VAT tax registration numbers; the withholding tax on atypical securities was raised from 18 to 30 per cent and the rate on interest from new bond issues by non-financial companies not listed on stock exchanges was raised from 12.5 to 30 per cent.

Health and social security measures

Decree Law 514/88 introduces changes to the system of charging for drugs. Law 544/88 raises welfare pensions and the minimum rates paid to employees and the self-employed (these improvements are means tested). The pensions paid to some long-retired public and private-sector employees were also increased.

Decree Law 548/88 raised the minimum weekly contribution to the pension scheme and extended the validity of social security contributory relief nationally and supplementary contributory relief for firms located in the South.

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

— *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)

Labour force

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

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.*

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.*

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.*

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.

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 dei 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
EAGGF	—	*European Agricultural Guidance and Guarantee Fund*
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
INAIL	—	*Istituto nazionale per l'assicurazione contro gli infortuni sul lavoro* National Industrial Accidents Insurance Institute
INA	—	*Istituto nazionale assicurazioni* National Insurance Institute
INPS	—	*Istituto nazionale per la previdenza sociale* National Social Security Institute
INVIM	—	*Imposta sull'incremento di valore degli immobili* 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	—	*Sezione per l'assicurazione dei crediti all'esportazione* Insurance Department for Export Credits
UIC	—	*Ufficio italiano dei cambi* Italian Foreign Exchange Office

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MANAGEMENT OF THE BANK OF ITALY

at 28 February 1989

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