BANCA D'ITALIA

Economic Bulletin

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The Gulf crisis struck when the industrial economies' long expansionary phase was in its eighth year. A study of the outlook for the world economy in the wake of the rise in oil prices is included in the chapter on short-term prospects; this chapter will therefore describe the situation prevailing when the crisis erupted.

In the first half of this year a slowdown in output in the United States and Canada contrasted with strong growth in Japan and Germany. Combined with exchange rates movements, this cyclical disparity helped to reduce external imbalances (Table 1). During this period inflation first accelerated, then slowed down. Monetary policies remained restrictive, in the absence of adequate support from budgetary policy.

In the United States GNP grew by barely 1 per cent on an annual basis in the first half of 1990, against 1.3 per cent in the previous six months, reflecting the sluggishness of private consumption and the decline in investment in the second quarter. The fall in industrial output and in capacity utilization rates, the sharp drop in retail sales and the rise in unemployment rates all point to a continued weakness of economic activity in the third quarter. Similar signs of a slowdown are apparent in Canada, where growth has been curtailed by the fall in domestic demand.

Table 1

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

(constant prices; annualized percentage changes on preceding period)

	1989	1989 H2	1990 H1	1990
United States				
GNP	2.5	1.3	1.0	1.3
Domestic demand	1.9	1.5	0.3	1.0
Change in net exports (1)	0.5	–0.2	0.8	0.3
Japan				
GNP	4.9	6.0	7.4	5.1
Domestic demand	5.9	6.7	7.1	5.0
Change in net exports (1)	–0.9	–0.7	0.3	0.1
Germany				
GNP	4.0	0.9	7.5	3.9
Domestic demand	2.8	2.4	6.8	4.5
Change in net exports (1)	1.3	–1.4	1.0	–0.5
France				
GDP	3.6	2.4	2.2	3.3
Domestic demand	3.1	2.7	2.5	3.3
Change in net exports (1)	0.4	–0.4	–0.3	–0.1
Italy				
GDP	3.2	3.2	1.8	2.9
Domestic demand	3.3	2.4	3.2	3.2
Change in net exports (1)	–0.3	0.7	–1.6	–0.5
United Kingdom				
GDP	2.1	1.9	2.6	1.0
Domestic demand	3.1	–0.8	3.1	–0.9
Change in net exports (1)	–1.1	2.8	–0.6	1.9
Canada				
GDP	3.0	2.4	1.2	1.8
Domestic demand	4.2	2.9	–0.2	1.5
Change in net exports (1)	–1.3	–0.5	1.4	0.2

Sources: OECD and IMF; for Italy: Istat and *Relazione Previsionale e Programmatica.*
(1) As a percentage of GNP/GDP in the preceding period.

In Japan the growth of GNP accelerated strongly to an annual rate of 7.4 per cent in the first half, stimulated above all by the briskness of domestic demand in the second quarter. In Germany, too, GNP grew considerably, by 7.5 per cent, a marked acceleration in relation to the preceding six months. Compared with the corresponding period of 1989, the increase in the first half came to 3.9 per cent, which is in line with the forecast for 1990 as a whole. The strong growth in output was due mainly to investment and private consumption, which has been boosted by the reduction in direct taxes, the strong rise in employment and salaries and the flow of migrants from Eastern Germany. In marked contrast to the strong performance of the West German economy, output in Eastern Germany is estimated to have fallen at an annual rate of 7 per cent in the first half of the year.

In the United Kingdom GDP grew by 2.6 per cent in the first six months, despite the poor performance in the first quarter. Output slowed down slightly in France and more notably in Italy, where growth was adversely affected by the negative contribution of net exports.

Unemployment fell in Japan and Italy and remained virtually stationary in France and the United Kingdom. In the United States it was unchanged at 5.3 per cent, its lowest level for fifteen years, but subsequently rose to reach 5.7 per cent in September. In manufacturing, which is more sensitive to cyclical trends, employment fell by more than 110,000 between July and September. The appreciable reduction in unemployment in Western Germany contrasted with a sharp increase in Eastern Germany, where according to official sources it rose by around 360,000 in August.

In the first half of 1990 inflation in the leading industrial countries was 4.7 per cent on an annual basis, close to the level for 1989. The average for the countries participating in the European exchange rate mechanism came to 4.2 per cent. The acceleration of inflation in the first quarter, which was mainly a reflection of price developments in the United States and Japan, was followed in the second by a slowdown affecting all countries to varying degrees except the United Kingdom, where persistently high and rising inflation was due largely to cost pressures. In particular, the rate of price increases fell by one point in Japan, thanks to the disappearance of the transitory effects of increases in indirect taxes, by over half a point in the United States and by less than half a point in Germany, France and Italy.

Figure 1

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

(percentage changes on corresponding period of previous year)

Sources: OECD and national bulletins.
(1) Producer prices and labour costs in manufacturing.

The behaviour of the prices of non-energy raw materials helped to damp down inflationary pressures; in the first six months the index in dollar terms was 11 per cent lower than in the corresponding period of 1989. As regards domestic costs, the first half saw wage growth accelerate slightly in most countries, in conjunction with continued high capacity utilization rates. Inflation began to rise again in July and by August was about half a point higher than in June in the leading industrial countries. This was due partly to special factors, such as the increases in social security contributions and minimum wages in the United States and those in some indirect taxes in Italy (Figure 1).

Economic policies

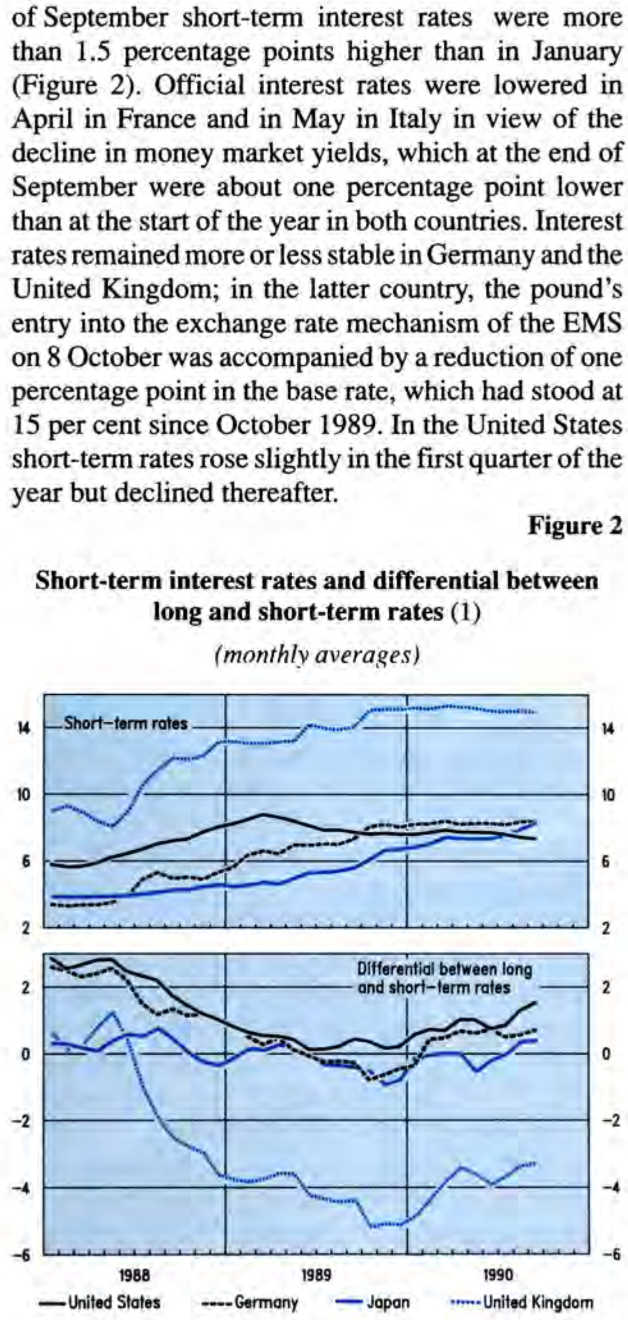
In the first six months of 1990 both nominal and real short-term interest rates were on average higher than in the preceding half-year in all the leading countries except the United States and Italy. Given the uncertainty surrounding future developments on the oil market and their effects on prices, this generally restrictive monetary policy stance was reaffirmed in the months that followed.

In Japan the discount rate was raised once in March to counter the depreciation of the yen and again in August to combat inflation. At the end of September short-term interest rates were more than 1.5 percentage points higher than in January (Figure 2). Official interest rates were lowered in April in France and in May in Italy in view of the decline in money market yields, which at the end of September were about one percentage point lower than at the start of the year in both countries. Interest rates remained more or less stable in Germany and the United Kingdom; in the latter country, the pound's entry into the exchange rate mechanism of the EMS on 8 October was accompanied by a reduction of one percentage point in the base rate, which had stood at 15 per cent since October 1989. In the United States short-term rates rose slightly in the first quarter of the year but declined thereafter.

Figure 2

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

(monthly averages)



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

Long-term yields rose sharply in the first quarter of 1990. The rise was particularly marked in Germany, reflecting not only fears of inflation stemming from the process of unification but also increases in real interest rates generated by the improved outlook for demand for capital goods and expectations of higher budget deficits. In the following four months long-term rates remained broadly unchanged in Germany, albeit at the highest levels for the last seven years, while they fell in the other countries except Japan, where they began to rise again in June. In August fears of inflation sparked by the Gulf crisis led to a rise in yields almost everywhere; in September they exceeded the levels of the beginning of the year by two percentage points in Japan and by approximately one point in the other countries except Italy, where they fell by over half a point in the period under review.

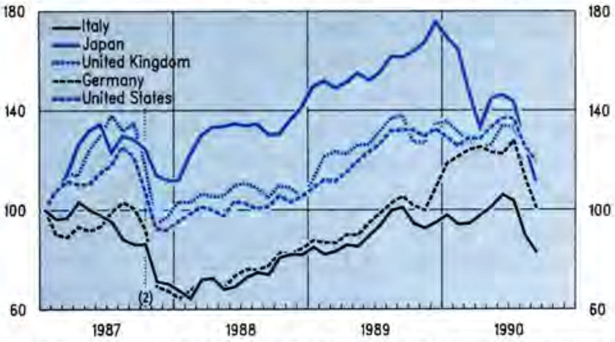
In all the leading industrial countries except Japan the reference monetary aggregates grew more slowly than nominal output in the first eight months of the year. In the United States the 12-month growth rate of M2 in August was close to the middle of the target range of 3-7 per cent. In Japan the M2+CD aggregate accelerated rapidly in the first four months of the year but subsequently slowed down to within the target range of 11-12 per cent. In Germany M3 grew by 4.3 per cent in the first six months compared with the year-earlier period, thus remaining at the lower limit of the target range; the wider measure of this aggregate, which includes Eurocurrency deposits held by German residents and short-term bank bonds, rose more rapidly. Monetary growth in the following two months was on average in line with that of the first half-year, so that monetary unification does not appear to have caused an excessive expansion in liquidity.

Except in the United Kingdom and Japan, the main international stock markets performed well in the first half of 1990 (Figure 3). In the United States share prices rose to a new record in June, stimulated by expectations of lower interest rates. The euphoria accompanying the process of German unification sustained the vigorous rise in the Frankfurt exchange until April, pushing the yield differential between bonds and shares to over 3 percentage points (Figure 4). This was followed by a calmer phase.

Figure 3

Index of share prices (1)

(monthly averages: January 1987=100)



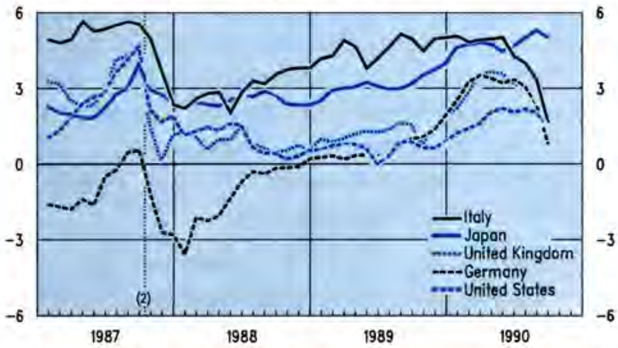
(1) For sources and definitions, see the Notes to Appendix Table a6. – (2) October 1987 stock market crash.

Share prices plummeted by 23 per cent in Tokyo in the first four months of the year owing to expectations of an increase in interest rates in view of the growing weakness of the yen. The effect spilled over into the Euromarkets; the drastic decline in issues of bonds with warrants by Japanese companies, which had sustained the growth of the international financial markets last year, was the main cause of the contraction in Euromarket activity. In the first half of this year total gross lending fell to $161 billion, 23 per cent less than in the corresponding period of last year (Table 2).

Figure 4

Differential between bond and share yields (1)

(end-of-period figures)



Sources: BIS, Morgan Stanley and Bank of Italy.
(1) Share yields are the inverse of the P/E ratios x 100. – (2) October 1987 stock market crash.

Adjusted for cyclical developments, the impact of fiscal policy in 1990 is expected to be neutral in the industrial countries as a whole. Once again, the contribution from budgetary policy appears to be inadequate to ease the burden imposed on monetary policy by the numerous tasks it is expected to perform. In the United States the federal deficit for the 1990 fiscal year, which has just ended, was $160 billion, $60 billion over the ceiling set by the Gramm-Rudman-Hollings Act. To this must be added expenditure of about $60 billion in connection with the crisis of the savings and loan associations. The financial burden of this operation will also have a considerable impact on future fiscal years; available estimates suggest that the current value of total expenditure in this connection may range from a minimum of $130 billion to a maximum of $400 billion, depending on the final number of associations involved, movements in interest rates and real estate prices and whether or not interest payments are included in the calculation. The Administration and Congress are negotiating an agreement that would reduce the budget deficit by $40 billion in the 1991 fiscal year and by $500 billion over the next five years. This package of measures, the details of which are still being finalized, originally entailed reductions in expenses and increases in indirect taxation. In order to win the approval of both the Congress and President Bush, it will probably have to be supplemented by further measures, including an increase in direct taxes for the higher income brackets and the introduction of indirect taxes on luxury goods.

In Germany the small surplus in the 1989 public sector budget is expected to give way to a deficit of about DM 35 billion this year, owing in part to the implementation of the final stage of the 1986-1990 tax reform, which provides for reductions in direct taxes amounting to around DM 24 billion, and in part to the higher-than-expected costs of unification. Some analyses estimate the public sector borrowing requirement of united Germany for 1990 at over DM 100 billion, equivalent to around 4 per cent of GNP. This estimate, which does not include social security balances, mainly comprises the deficits of the two separate German states and the resources of the German Unity Fund and the GDR Trust Fund. In the United Kingdom the public sector surplus of the last two years is expected to be almost wiped out this year on account of the slower growth of the economy and increases in public spending.

Table 2

Gross lending in international capital markets

(billions of dollars)

	1988	1989	1989 Q3	1989 Q4	1990 Q1	1990 Q2
Gross bond issues (1)	229.7	255.8	56.0	58.3	59.9	53.2
of which: floating rate	*22.3*	*17.8*	*5.5*	*4.8*	*8.4*	*9.4*
Syndicated loans (2)	125.6	121.2	25.5	32.5	19.8	22.6
Back-up facilities (3)	16.6	8.4	2.3	1.6	3.2	2.3
Total gross lending (4)	**371.9**	**385.3**	**83.7**	**92.4**	**82.9**	**78.1**
	percentage breakdown by borrowers					
OECD countries	89.3	90.2	86.3	90.3	89.6	86.6
of which: United States	*12.8*	*12.9*	*10.2*	*6.2*	*6.4*	*13.5*
Italy	*3.3*	*4.4*	*2.0*	*6.8*	*7.0*	*11.8*
OPEC countries	0.9	1.3	1.5	1.8	0.8	1.5
Other developing countries	5.5	3.8	5.1	4.6	3.5	5.4
Eastern Europe	1.2	1.2	1.5	1.0	0.7	0.2
Other	3.1	3.5	5.6	2.3	5.4	6.3

Source: OECD.
(1) Euromarket issues plus foreign issues in domestic markets. – (2) Announced medium and long-term Eurocredits and foreign loans. – (3) Lines of credit granted in connection with the issue of securities. – (4) Rounding may cause discrepancies in totals.

In Japan, on the other hand, the financial surplus of the public sector continued to improve and is forecast to rise from 2.8 to 3.2 per cent of GNP, thanks to a marked cyclical increase in revenue and a slower rate of increase in expenditure than in GNP. In France the ratio between the deficit and GDP should decline further.

The balance of payments and exchange rates

In the first half of 1990 the United States made further progress in reducing its external imbalance (Table 3).

Provisional figures indicate that the US current account deficit fell to $87 billion on an annual basis in the first half of 1990, compared with almost $109 billion in the second half of 1989. The reduction is attributable to the improvement in the trade deficit, which narrowed by almost $20 billion. Trends in competitiveness and relative demand encouraged a particularly rapid growth of exports, which in volume terms were around 12 per cent higher on an annual basis compared with the second half of 1989; over the same period the volume of imports fell by 3 per cent. The trade deficit with Japan was almost one fifth lower than last year's figure of $49 billion. The surplus on trade with the EEC as a whole rose considerably. The United Kingdom, the Netherlands and Belgium made major contributions to this result, while the deficits with Germany and Italy remained at the levels of the first half of last year.

In the first half of 1990 Japan's current account surplus stood at less than $50 billion on an annual basis, close to the level of the previous six months but well below that for last year as a whole. This contraction in the surplus, which has now been under way for four years, halted in the first quarter but resumed thereafter under the influence of the expansion in domestic demand.

Germany's current account surplus in the first six months was equal to $55 billion on an annual basis, higher than the figure for Japan. The trade surplus increased still further, especially when compared with that of the second half of 1989, reflecting the noticeable improvement in the terms of trade in the early months of this year. In the second quarter, however, the steady growth of domestic demand reduced the trade surplus to $67 billion on an annual basis.

During the year exchange rate movements have led to pronounced variations in competitiveness, thus contributing more to the correction of current account imbalances than was the case last year (Figure 5). Though fluctuating somewhat, the dollar continued to depreciate, a trend that had been triggered in October 1989 by the reversal of the short-term yield differential vis-à-vis the Deutschemark.

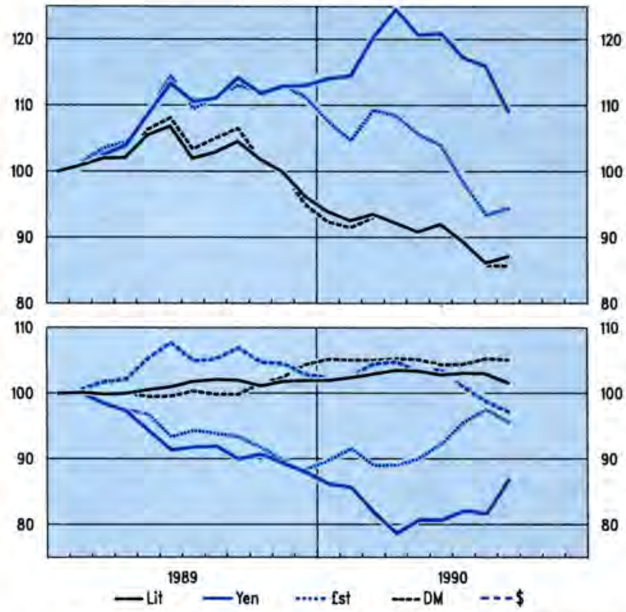
In the first part of the year the weakening of the dollar was partly the result of expectations of a reduction in interest rates, nurtured by recurring signs of a slowdown in the US economy. It was accentuated in July by the fall in US short-term rates. At the end of September the nominal effective exchange rate was more than 11 per cent below the average for the corresponding month in 1989; the depreciation was greater still vis-à-vis the currencies of the European exchange rate mechanism, reaching 19 per cent.

The yen continued to come under strong downward pressure in the first few months of the year, partly as a consequence of the sudden fall in share prices, which led to the selling of yen-denominated assets. This tendency was reversed in May, when the relatively high level of Japanese interest rates again began to support the currency. Despite Japan's high degree of energy dependency, the Gulf crisis has had no adverse effects on the yen, which actually strengthened against all other currencies in August and September.

Figure 5

Bilateral exchange rates against the dollar (1) **and nominal effective rates of leading currencies** (2)

(indices: January 1989=100)



(1) Expressed in units of each currency per dollar. – (2) Vis-à-vis a trade-weighted average of 14 other currencies.

Table 3

Current account and trade balances

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

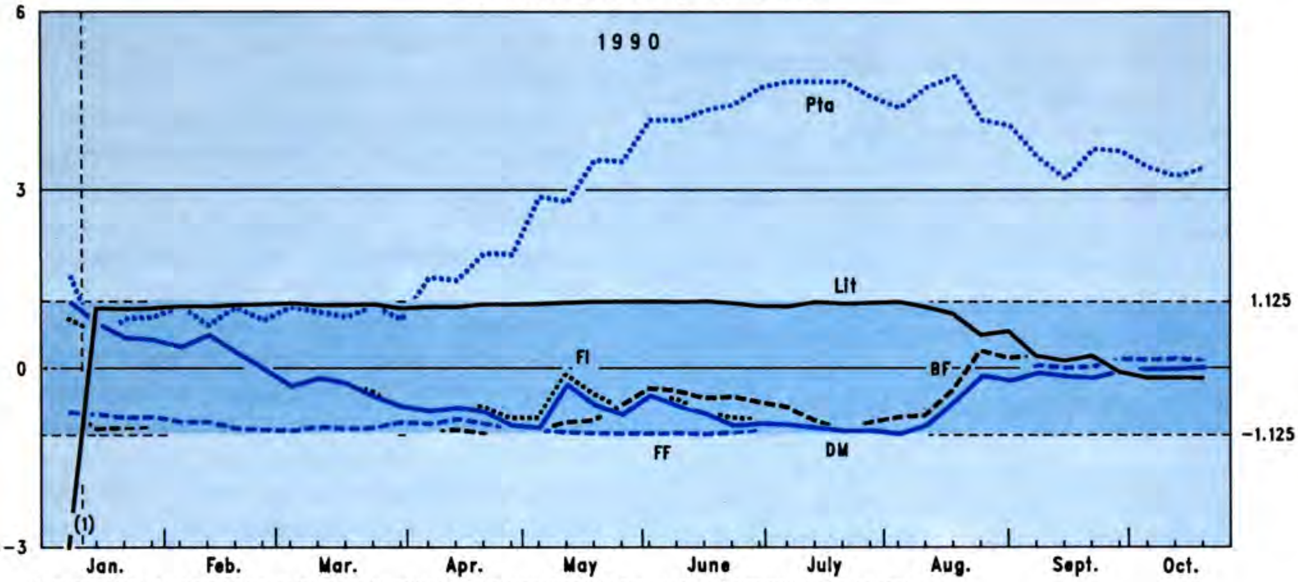
	Current account balances			Trade balances: Total (1)			Trade balances: *of which: with United States* (2) (3)		
	1989		1990	1989		1990	1989		1990
	H1	H2	H1	H1	H2	H1	H1	H2	H1
Industrial countries	–69.0	–99.8	–80.0	–20.8	–43.0	–16.0	53.4	57.3	32.0
of which: United States	*–111.5*	*–108.6*	*–87.0*	*–112.6*	*–117.1*	*–97.8*	—	—	—
Japan	*67.7*	*46.6*	*47.2*	*92.1*	*65.2*	*61.7*	*48.9*	*49.3*	*39.2*
EEC	8.6	–10.4	13.0	3.6	9.8	26.0	–3.5	1.1	–10.7
of which: Germany (3)	*60.5*	*50.6*	*55.4*	*73.9*	*69.8*	*76.9*	*7.6*	*8.3*	*8.7*
France	*–1.0*	*–7.5*	*–4.5*	*–8.7*	*–12.9*	*–9.2*	*1.5*	*1.3*	*–0.6*
Italy	*–12.0*	*–9.2*	*–17.1*	*–3.8*	*–0.2*	*1.2*	*3.8*	*5.6*	*4.3*
UK	*–31.0*	*–31.6*	*–29.6*	*–41.7*	*–34.2*	*–34.4*	*–3.3*	*–1.8*	*–5.4*

Sources: OECD and national bulletins. The figures for 1990 are partly estimated.
(1) *Fob-fob.* – (2) Not seasonally adjusted. – (3) *Cif-fob.*

Figure 6

Divergence of market rates from EMS central rates

(percentages, end-of-week data)



(1) Realignment of the central rate of the lira on 8 January 1990 in connection with adherence to the narrow fluctuation band.

Between January and July the pound sterling appreciated by 8.6 per cent against the dollar, by 5.7 per cent against the Deutschemark and by 4.2 per cent against the ERM currencies, in response to expectations that it would join the exchange rate mechanism. This trend strengthened in August and the first half of September owing to the increased demand for sterling on precautionary grounds in the light of the Gulf crisis. On 8 October the United Kingdom joined the exchange rate mechanism of the EMS.

Following the lira's adherence to the narrow fluctuation band at the beginning of January (see insert in Economic Bulletin No.10), ERM currency movements were marked by the continuing strength of the Italian and Spanish currencies vis-à-vis all the others and by a weakening of the Deutschemark, which gradually fell to the lower limit of the fluctuation band (Figure 6). In May the Deutschemark recovered some ground within the System, thanks to the slight rise in German interest rates. By contrast, the tension increased between the lira and the French franc, which moved to the upper and lower intervention limits respectively. Despite the reduction in interest rates differentials vis-à-vis Germany and France in June, the lira stayed at the upper margin of the band and in the second week of August came close to its upper limit against the Deutschemark. It then began to move back towards the centre of the band and by the start of October it was at the level prevailing when Italy adopted the narrow margins of fluctuation.

The economic situation in the developing countries and Eastern Europe

Annual growth in the developing countries as a group is expected to be about half a percentage point lower this year than the 3 percent recorded in 1989, primarily because of the fall in income in Eastern European countries and economic stagnation in Latin America. The effects of the stringent economic adjustment measures adopted by many developing countries have been compounded by the slower growth of their export markets in industrial countries, the decline in raw materials prices and the rise in the cost of debt servicing. In Africa, in particular, the annual growth rate is likely to be only 2.5 per cent, one point lower than last year. The continent's economic crisis, which is especially severe south of the Sahara, will lead to a further reduction in the already very low level of per capita income, as happened during most of the eighties.

Recent developments in the application of the debt reduction strategy have been encouraging. Agreements have been reached or are being worked out in respect of some 50 per cent of the bank debt of the 15 countries covered by the Brady Plan. Thus far Mexico, the Philippines and Costa Rica have concluded financial agreements with their creditor banks in which debt reduction operations are contemplated. Chile and Yugoslavia have reduced their debt via debt conversion and repurchase, and negotiations for similar operations are under way with other major debtors, including Venezuela and Argentina. In several heavily indebted countries the positive effects of rigorous adjustment programmes are beginning to come through. The debt situation of many countries remains difficult nonetheless; for the countries of the Brady Plan, for example, the burden of debt servicing is expected to increase in 1990 whereas income will stagnate after having grown by 2 per cent in 1989. The rate of price inflation in this group of countries should fall this year to 25 per cent from 40 per cent in 1989.

At the recent meetings in Washington, the Interim Committee and the Development Committee asked the IMF and the World Bank to respond promptly to the needs of member countries arising from the Gulf crisis by adapting the mechanisms and programmes of financial assistance should this be necessary. In addition, the leading industrial countries and several developing countries have formed a group to give financial support to the countries worst hit by the crisis – Egypt, Turkey and Jordan – and are studying ways to provide them with direct aid amounting possibly to $15 billion.

This year nearly all the countries of Eastern Europe began implementing the reforms designed to reduce or even eliminate the system of centralized planning and partially liberalize prices. Several of them have introduced legislation to lay the institutional foundations of a market economy, such as reform of the central bank and legislation on property rights. Steps have also been taken to liberalize trade and reorganize the banking system, and a number of countries are drawing up programmes for the privatization of state companies. The European Bank for Reconstruction and Development will be able to play a part in supporting the growth of the private sector.

In many countries, the difficulties involved in the transition to a system based on the rules of the market, the persistent shortage of goods and the excessive volume of money in circulation have caused an upsurge of inflation. The attempts to stabilize prices by means of macroeconomic policies have contributed to a significant decline in real income and employment. Several heavily indebted countries (Poland, Hungary and Yugoslavia) have encountered considerable difficulty in financing payments imbalances in the market and have turned to international organizations (the IMF, the World Bank and the EEC) to obtain conditional loans to support adjustment programmes.

In the Soviet Union, net material output fell by 1 per cent in real terms in the first half of 1990, the first decrease the official statistics have shown since the end of the Second World War. The fall in productivity, which was particularly pronounced in mining and petroleum production, the closure of many plants not in conformity with environmental protection laws and the conversion of part of industry from military to civilian production were among the main causes of the decline. The balance of payments on current account in convertible currency deteriorated sharply, swinging from a $3.1 billion surplus in 1988 to a $3.2 billion deficit in 1989, as imports rose and exports stagnated. The current account deficit with the Comecon countries, which had appeared in 1988 for the first time in many years, widened further in 1989.

In Poland, the objectives of the programme agreed with the IMF in connection with the loan of SDR 545 million granted in January were fully met and indeed surpassed in the first six months of the year. Bank credit to the state sector was reduced by 14 per cent compared with the first half of 1989 and a budget surplus was recorded. However, owing to the severely tight monetary stance, industrial output fell by 30 per cent and the unemployment rate rose from zero to 4.5 per cent, much higher than had been expected. During the year the exchange rate on the parallel market has not diverged significantly from the official rate, indicating expectations of a further reduction in inflation, which fell from an annual rate of 1,100 per cent in January to one of 750 per cent in August. As to structural reforms, the law governing the privatization of public companies has been adopted, although massive state subsidies continue to be paid to industry and agriculture.

In Hungary, the annual rate of inflation accelerated from 23 per cent in January to 28 per cent in July. The trade balance in convertible currency recorded an unexpected surplus in the first six months of the year as a result of the depreciation of the currency and the switching of exports, particularly of agricultural products, from Comecon to the West. During the year Hungary has found it difficult to obtain medium and long-term bank loans, but the placement of bond issues has been easier. At the first review of the IMF loan in May, the targets for the foreign currency reserves and the expansion of credit for 1990 were made less restrictive.

In Czechoslovakia, the economic reform programme of liberalization and privatization was adopted by Parliament in September and will come into operation next year. Signs of a recession appeared in the first half of the year with a 2 per cent fall in real income. The rise in prices remains moderate, the current balance in convertible currency shows a modest surplus and the debt indicators remain low. Nonetheless, inflation is expected to accelerate in connection with the price liberalization that began in July and whose scope should be broadened in 1991. In mid-September the authorities applied for financial assistance from the European Community and a loan from the IMF, which Czechoslovakia rejoined in August.

In Yugoslavia, after the launch of a new stabilization programme last December, there was a marked slowdown in inflation in the early months of this year. However, the real appreciation of the currency caused by the sharp initial rise in prices had an adverse effect on the trade balance; together with the slump in domestic demand, this contributed to a fall in industrial production. Despite the deterioration in the trade balance, the official reserves increased by more than $1 billion as a result of capital inflows and remittances from abroad encouraged by the stabilization of the nominal exchange rate.

The Italian economy and the balance of payments

In the first half of the year the pace of economic growth was somewhat slower than in previous years, but still appreciable. Compared to the same period a year earlier, the growth rate of GDP declined to 2.5 per cent, whereas in 1989 it had amounted to 3.2 per cent. In line with the trend that emerged last year, a modest slowdown in the expansion of consumption was coupled with a more pronounced weakening of investment.

The deceleration of economic activity in Italy took place in the context of a slowing down of expansion internationally. Export growth fell back from an average of 9.1 per cent in 1989 to 5.6 per cent in the first half of 1990. Thanks to an improvement in the terms of trade, the trade deficit on a *cif-fob* basis amounted over the first eight months to 9.1 trillion lire, representing a decline of 4.0 trillion lire. The improvement was entirely attributable to trade in non-energy products.

Domestic cost pressures remained strong. In the first half of the year inflation diminished only slightly, though steadily, despite an appreciation in the effective exchange rate of the lira and a decline until the summer in the prices of raw materials, especially for oil. In August, just as prices began to feel the impact of several tax measures, the sudden rise in oil prices intervened.

Employment developments were generally positive, not least in Southern Italy. Indications provided by Wage Supplementation Fund data, however, were less encouraging, showing an interruption of the steady decline since 1984 in the number of hours paid. The unemployment rate was about 1 percentage point lower than in the first half of 1989. The diminution affected all parts of the country; however, the rate is still four times as high in the South as in the North.

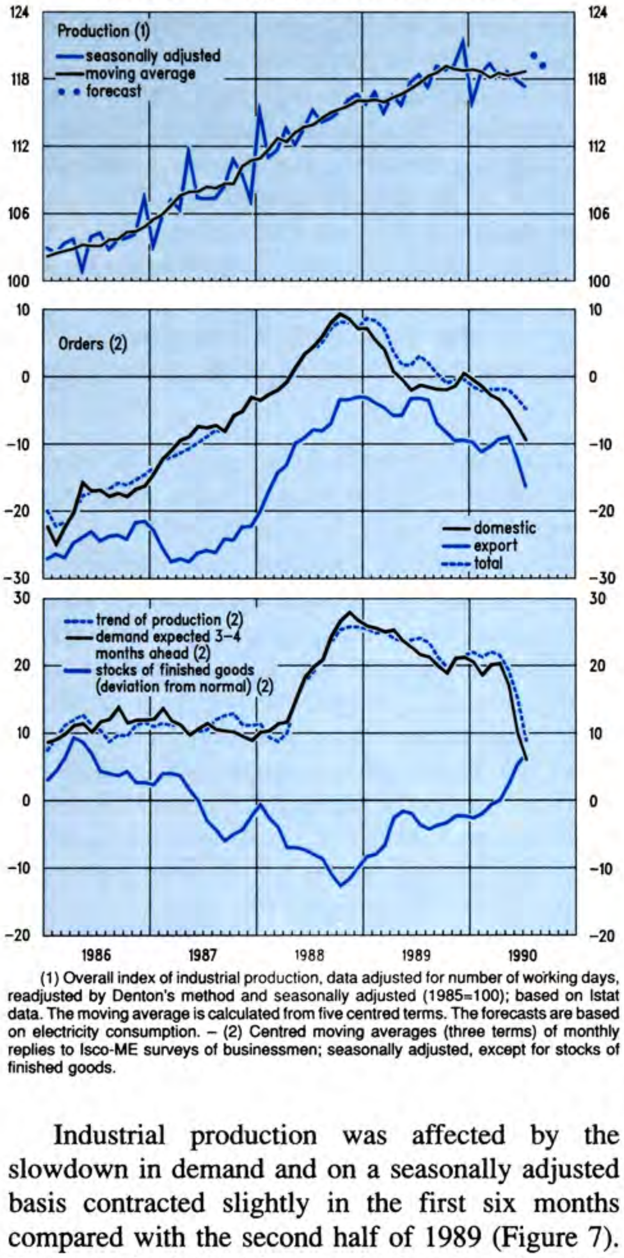
Domestic demand and industrial output

In the first six months domestic demand was 2.8 per cent higher than in the first half of 1989, a slowdown compared with the average expansion of 3.3 per cent recorded for all of last year. Fueled by strong and sustained growth in households' real incomes, consumer spending rose by 3 per cent, as against 3.8 per cent on average for 1989. There was a more than proportional slowdown in purchases of consumer durables, which grew by 5.3 per cent, as against 9.1 per cent in 1989. The latest figures show that new car deliveries through September were no more than 0.2 per cent higher than in the first nine months of 1989, after expanding on average by 9.3 per cent in 1988-89; in recent months deliveries were lower than last year. The strong growth in spending on consumer durables in recent years was the result of households' desire to bring their stocks of such goods to higher levels, which partly reflected their improved income prospects. The current slowdown may stem from both the completion of the stock adjustment process and the slower improvement in income prospects.

Investment outlays were 2.6 per cent higher in the first half than in the first six months of 1989. There was a marked deceleration in the machinery, equipment and transport equipment component, which fell to 2 per cent as against 6.3 per cent in 1989 as a whole and 12.1 per cent on average in 1987-1988. In previous years the share of restructuring investment was still substantial, though tending to fall back. Sustained economic growth and important supply bottlenecks had led to a vigorous resumption in the expansion of capacity. More recent developments indicate a gradual weakening of the acceleration mechanisms inherent in such a process. The signs of an international slowdown and heightened uncertainty may also have induced firms to be more cautious in their expansion plans. Spending on construction rose by 3.4 per cent, as against 3.6 per cent on average for 1989. This result reflected not only a larger volume of public works, including those related to the World Cup football matches, but also an increase in residential building. The "building permit" index, which has been rising rapidly since 1987, points to a continued high level of activity in the coming months.

Figure 7

Industrial output, demand and stocks

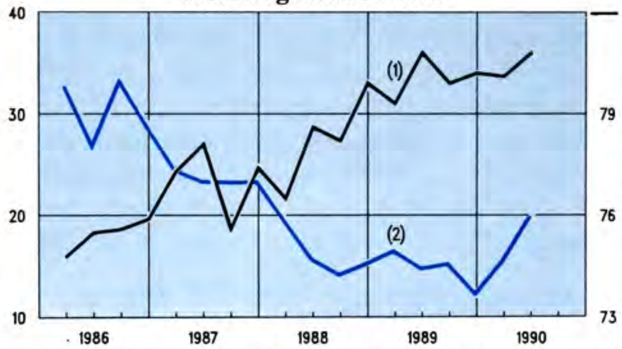


(1) Overall index of industrial production, data adjusted for number of working days, readjusted by Denton's method and seasonally adjusted (1985=100); based on Istat data. The moving average is calculated from five centred terms. The forecasts are based on electricity consumption. – (2) Centred moving averages (three terms) of monthly replies to Isco-ME surveys of businessmen; seasonally adjusted, except for stocks of finished goods.

Industrial production was affected by the slowdown in demand and on a seasonally adjusted basis contracted slightly in the first six months compared with the second half of 1989 (Figure 7). Estimates for the last few months based on electricity consumption nonetheless indicate that output during the first three quarters may have been slightly higher than in the same period of 1989. Output developments by sector are consistent with information relating to the pattern of demand. Specifically, the output of consumer durables and semidurables in the first half was 1.6 per cent lower than in the same period of 1989. Capacity utilization in manufacturing as a whole remained high. In the light of the expected trend of demand, firms now report an easing of plant capacity constraints (Figure 8).

Figure 8

Capacity utilization in industry excluding construction

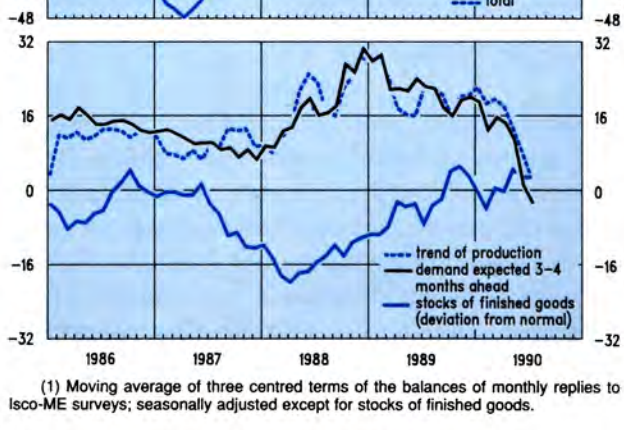


(1) Capacity utilization rate. – (2) Assessment of capacity adequacy: difference between survey responses of "more than sufficient" and "insufficient" to meet expected demand for the next 12 months.

The Isco business opinion surveys conducted during the summer confirm the worsening of the economic climate. Expectations about output and orders were less optimistic, and businessmen considered stocks of finished goods to be larger than normal. These signs were more pronounced for the capital goods industries (Figure 9).

Figure 9

Orders and stocks in the capital goods industry (1)



(1) Moving average of three centred terms of the balances of monthly replies to Isco-ME surveys; seasonally adjusted except for stocks of finished goods.

Employment and the labour market

Labour force surveys showed a strong expansion of employment in the first part of the year. The January, April and July surveys showed an average increase of 350,000, or 1.6 per cent, compared with the year-earlier results. The largest percentage increase was in construction (3.8 per cent, or 68,000 workers). The largest growth in absolute terms was in services, where 250,000 jobs were created (a gain of 2.0 per cent), mostly in government and "other services" (175,000 jobs, an increase of 3 per cent).

Industry excluding construction also registered an expansion of employment. The increase, which amounted to nearly 50,000 jobs (about 1 per cent), was entirely attributable to small and medium-sized firms, since firms with more than 500 employees continued to shed labour. However, the July survey indicated a contraction throughout the manufacturing sector in the early part of the summer. Confirmation of the uncertain outlook for employment in industry is provided by the data on recourse to the Wage Supplementation Fund. On a seasonally adjusted basis, the number of full-time equivalent workers receiving benefits remained virtually unchanged in the first four months of the year at close to the 1989 average. However, ordinary benefits, the most cyclically sensitive component, which had accounted for only 17 per cent of the total hours paid in 1989, were 27.5 per cent higher than in the year-earlier period. In the engineering industry the increase in ordinary benefit hours was greater still, amounting to 39 per cent. By contrast, special benefits, more closely related to the far-reaching restructuring of industry in earlier years, diminished by 15 per cent.

Employment growth was strongest in the South (2.7 per cent), where it was concentrated in the services sector and the construction industry. There was also a gain of 2 per cent in agriculture, but this is not likely to prove lasting; farming still accounted for 15 per cent of total employment in the South in 1989 compared with 6.6 per cent in the Centre-North, so that a decline in its importance would appear inevitable.

Compared with the year-earlier results the January, April and July surveys indicated a decline in the average unemployment rate from 12.1 to 11 per cent. The improvement involved all regions of the country and interrupted the trend towards a worsening of regional disparities (Table 4). However, the Southern unemployment rate is still nearly twice the figure recorded in 1980, whereas in the North the increase that occurred in the first part of the decade has now been entirely reversed, for men and women alike. For men in particular, there now appears to be little scope in the North for any significant lowering of the unemployment rate.

Industrial relations activity related to the renewal of labour contracts was intense. In the public sector, the agreements reached in the second half of 1989 began to go into effect, while in the first half of 1990 new contracts covering the health service, autonomous government agencies, the universities, local government and the national railways were signed. For the government sector as a whole, contractual wages in July were 12.6 per cent higher than a year earlier, representing a much stronger rise than that recorded by the entire economy (8 per cent). However, the increase in actual earnings was less pronounced, owing in part to delays in implementing the new contracts. In the private economy, there were major renewals in the services sector, although the negotiations on the new contract for the distributive trades have not yet been concluded. In the construction industry wages recorded especially large gains (being 12.8 per cent higher in July than a year earlier) thanks to the effects of the final raise provided for in the contract that expires at the end of this year.

The effects of contract renewals in the manufacturing sector are still limited. The most important agreements reached so far are those for the paper industry (in May) and the chemical industry (in July). In this latter the agreement introduces a mechanism for the predetermination of the total annual increase in nominal earnings; cost-of-living allowances are therefore included but with a safeguard clause in case the actual inflation rate moves outside the range implicitly projected. The

Table 4

Selected unemployment rates

	North			Centre			South		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
					Entire labour force				
1980	2.9	9.2	5.2	4.8	12.8	7.4	7.5	20.2	11.5
1986	4.9	13.1	8.0	6.1	15.9	9.7	11.4	27.2	16.5
1987	4.8	12.7	7.8	6.2	15.7	9.7	13.6	30.7	19.2
1988	4.1	11.3	6.9	6.2	16.2	9.9	14.5	32.7	20.6
1989	3.4	10.2	6.0	6.5	17.5	10.7	15.0	33.2	21.1
1989 (Jan.-Apr.)	3.5	10.4	6.1	6.5	17.2	10.6	15.4	33.2	21.4
1990 (Jan.-Apr.)	2.8	8.9	5.2	6.5	16.2	10.2	13.6	31.5	19.6
					Young people aged 14-29				
1980	8.6	16.3	12.1	17.1	25.6	20.7	21.4	39.1	28.1
1986	13.4	23.8	18.3	19.8	32.8	25.8	30.0	51.5	38.4
1987	13.0	22.8	17.6	19.9	33.1	26.0	34.2	55.6	42.8
1988	10.5	19.8	14.9	19.9	33.4	26.1	36.2	58.1	45.2
1989	8.5	17.5	12.7	20.0	35.7	27.3	37.0	58.0	45.6
1989 (Jan.-Apr.)	8.7	18.0	13.1	20.6	35.6	27.6	37.6	58.1	46.0
1990 (Jan.-Apr.)	6.9	15.0	10.7	19.2	33.1	25.6	34.9	56.6	43.8

Source: Istat, *Rilevazione delle forze di lavoro.*

wage increments are concentrated in the first year of the contract and will lead in 1991 to a cumulative increase of more than 12 per cent in relation to 1989. However, the expiration of the contract has been deferred to the end of 1993, and it was agreed that there shall be no company-level bargaining for two years. When fully applied, the new contract will also affect the cost of labour through a 1 per cent reduction in working hours. Talks in the metal and engineering industry are still under way. The agreements covering other important industries such as textiles and food processing also expire in the coming months.

Costs and prices

The rigour of exchange rate policy has continued to be a powerful disinflationary force. Between the spring of 1989 and that of 1990, and in relation to Italy's principal trading partners, the lira appreciated by 2 percentage points in nominal terms and by over 4 points in real terms. As well as having a beneficial effect on the lira prices of imports, these movements have slowed the rise in producer prices by intensifying the competitive pressure on domestic firms. Manufacturing producer prices increased on average by just over 3 per cent in relation to the corresponding six months of 1989. The slight narrowing of margins that had started in 1989, after several years of very high profits, thus continued.

The movement of lira prices of imported inputs made a significant contribution to containing firms' costs in the first half of the year. Whereas in terms of lire the average unit price of imports in the second quarter of 1989 was 10.2 per cent higher than in the second quarter of 1988, the corresponding comparison for the second quarter of 1990 showed a fall of 5.6 per cent. Over the earlier period, the dollar price of oil rose by 17.5 per cent, while the dollar appreciated against the lira by 11.1 per cent. By contrast, over the later period the dollar price of oil declined by 12.2 per cent, while the dollar fell by 12.5 per cent against the lira.

Changes in the cost of imported goods influence consumer prices both directly and indirectly. The direct impact occurs via imports of final consumer goods; the indirect effect is channeled via the prices of domestically produced consumer goods. In the short run, firms pass only part of any change in the cost of inputs on to producer prices, in view of the costs of adjustment and the danger of a loss of competitiveness on the domestic market. In turn, changes in producer prices are reflected in retail prices with an additional lag. Ignoring such lags and assuming that unit profit margins are constant and the elasticity of consumer prices with respect to import costs is about one fourth, the effect of import prices alone, given the changes in the unit values of imports described above, could have slowed consumer price inflation down by almost four percentage points between the spring quarter of 1989 and that of 1990. The actual deceleration, however, was less than half a point, from 6.5 to 6.1 per cent. The failure to achieve more pronounced disinflation can be ascribed to the persistence of domestic inflationary impulses.

Labour productivity gains in manufacturing slowed further, as in 1989. The less pronounced rise in productivity compared with the mid-eighties has been due to cyclical factors and to the winding down of the intensive phase of restructuring in most of the manufacturing sector in the earlier period. Moreover, the present round of wage agreements is aggravating the rise in unit labour costs in industry. The effects of the new contracts were limited in the first half of the year, but unit labour costs were nonetheless 6.5 per cent higher than in the year-earlier period. The prices of domestically produced goods and services used by industry were some 8 per cent higher than a year earlier, an acceleration of more than two percentage points.

Tax measures and public sector pricing policies also exerted upward pressure on consumer prices. The increases in excise taxes on petroleum products and electricity rates introduced last autumn pushed up the twelve-month rise in the prices of fuel and power products for both productive and consumer uses, just when the unit prices of energy imports in lire were beginning to decelerate and then to decline. It is worth noting, however, that the foregoing increases served to make up for the preceding phase of rising world energy prices, when in Italy the effects had been partly absorbed by the budget and public utility companies.

Additional inflationary pressures were generated by the services sector, which is still largely sheltered from international competition. In the second quarter service prices not subject to control, which account for one fifth of the consumer price basket, were 7.9 per cent higher than in the corresponding quarter of 1989, nearly two percentage points more than the rise in the general index. Goods prices not subject to such control, by contrast, rose by 5.2 per cent, one point less than the overall index. Fierce competition and weakening demand held the increase in the prices of consumer durables to just over 3 per cent.

The balance of payments on current account

According to provisional unadjusted data, Italy registered a current account deficit of 15.1 trillion lire in the first half of 1990, 2.55 trillion more than in the same period of 1989. While the merchandise trade deficit narrowed by 3.2 trillion lire, *fob-fob*, there was a sharp deterioration of 5.6 trillion lire in the balance on services and unrequited transfers (Table 5).

Table 5

Current account of the balance of payments on a transactions basis
(balances in billions of lire)

	1989		1990 (1)
	Year	H1	H1
Memorandum item:			
Goods (*cif-fob*)	–16,932	–14,228	–11,256
Goods (*fob-fob*)	–2,712	–6,870	–3,700
Services and transfers	–11,740	–5,756	–11,400
Foreign travel	7,151	3,077	2,200
Investment income	–11,366	–5,471	–7,500
Official transfers	–4,814	–2,133	–2,300
Other	–2,711	–1,299	–3,800
Total	**–14,452**	**–12,626**	**–15,100**

(1) Provisional.

Customs data show the merchandise trade deficit as amounting to just over 11 trillion lire on a *cif-fob* basis, 3 trillion less than in the year-earlier period. The smaller deficit was due above all to the sharp improvement in the terms of trade; in real terms, by contrast, the deficit expanded by some 600 billion lire. In current value terms, the improvement was due entirely to trade in non-energy goods, while the energy deficit was about the same as in the first six months of 1989, despite a drop of 6 per cent in the average lira price of imported crude oil.

The expansion of exports and imports slowed considerably compared with their exceptional pace of growth in 1989. Customs data indicate that in volume terms exports rose in the first half by 5.6 per cent in relation to the year-earlier period, as against an increase of 9.1 per cent in 1989 over 1988 (Table 6).

The expansion of export volume was limited by a slowdown in world demand. Italy's export growth differential with respect to the other industrial countries remained positive in 1989, but gradually narrowed; in the first half of 1990 it became slightly negative. Another factor impeding export growth was the appreciation of the lira in real terms that began in the second half of 1989 (Figure 10). In relation to the first half of 1989, the index based on producer prices of manufactures showed for the first half of this year a 5.9 per cent loss of competitiveness vis-à-vis Italy's main trading partners, and one of 3.7 per cent vis-à-vis the EEC; with respect to ERM countries, the loss came to 2.7 per cent. The impact of these negative factors was attenuated by the strong growth of the German economy, one of Italy's main export outlets. In volume terms German merchandise imports from the rest of the world were 9 per cent greater in the first six months than in the corresponding period of 1989.

Table 6

Foreign trade: values, prices, volumes
(percentage changes on year-earlier period)

	1989		1990
	Year	H1	H1
Exports:			
Value	16.0	18.8	7.5
Average unit value	6.3	7.8	1.9
Volume	9.1	10.3	5.6
Imports:			
Value	16.6	22.8	3.7
Average unit value	7.6	9.3	–2.0
Volume	8.3	12.5	5.9
Domestic demand	3.3	4.3	2.8
World demand (1)	7.5	8.2	5.9
Terms of trade	–1.2	–1.4	4.0
Capacity utilization rate	0.2	0.2	–0.6

Sources: IMF and Istat.
(1) Exports of the industrial countries.

The average unit values of Italian exports were 2 per cent higher than in the first half of 1989. The rise in the average values of manufacturing exports (2.3 per cent) was less than that in producer output prices on the domestic market, which suggests that Italian exporters offset part of the decline in competitiveness by cutting unit profits.

The increase in the volume of imports (5.9 per cent in the first half) was also less than in 1989, reflecting slower growth not only of imports of raw materials, which rose exceptionally fast in 1989, but also of imports of consumer durables and of machinery and transportation equipment for investment. Net of raw materials, the increase in imports at constant prices came to more than 6 per cent compared with the first half of 1989.

Figure 10

Real exchange rates of the lira
(indices; 1985=100)

Import prices decreased by 2 per cent, thus contributing to an overall gain of 4 percentage points in the terms of trade. Since the foreign-currency prices of imported manufactures were basically stable, the fall in average unit values was due to the appreciation of the lira and the decline in non-energy raw material prices (Figure 11). On average, the lira appreciated by 11 per cent against the dollar compared with the first half of 1989, more than offsetting the 4.6 per cent rise in the dollar price of imported oil and amplifying the effect of the decline in the world prices of other commodities (–14.3 per cent compared with the first half of 1989). During the first half, the price of Italy's imported oil ranged from a peak of $21.00 a barrel in February to $15.10 in June.

By product groups, the energy deficit for the first seven months of 1990 was unchanged in relation to a year earlier, while the deficit on trade in ores and metals fell by about 1.3 trillion lire, thanks to a slackening of the stock rebuilding that had begun in 1989 (Table 7). The combined surplus on trade in textiles and metal products and machinery increased by 1.3 trillion lire, and the food deficit narrowed by 900 billion. However, the deficit in chemical products widened slightly.

Italy's strong trade performance in the first seven months of the year was reflected uniformly in the balances with all the principal groups of countries, except in the case of OPEC (Table 8). Turning to the EEC countries, Italy's balance of trade with Germany and France improved by almost 2.5 trillion lire, with exports to Germany increasing by 13.6 per cent. The surplus on trade with Greece and Portugal rose by more than 900 billion lire, but that with the UK narrowed by about the same amount. The contraction of exports to Britain appears to have been due not only to slackening domestic demand there but also to Italy's pronounced loss of competitiveness bilaterally (a decline of 11.8 per cent, much sharper than that vis-à-vis the rest of the area). The deficit with Eastern Europe diminished as a result of a substantial decrease in imports.

Figure 11

Average unit values of imports and main price determinants
(indices; 1985=100)

Sources: Istat, *The Economist*.

According to provisional data (the new system of statistics prepared by the Italian Foreign Exchange Office following the completion of foreign exchange liberalization is not yet fully operative), services and transfers gave rise to a deficit of nearly 11.4 trillion lire in the first six months.

The net outflow on investment income account increased again (by some 2 trillion lire compared with the first half of 1989), reflecting the sustained growth of Italy's net external debt and the further rise in long-term international interest rates.

Table 7

Merchandise trade by product group

(billions of lire)

	Exports (*fob*)		Imports (*cif*)		Balance	
	January-July		January-July		January-July	
	1989	1990	1989	1990	1989	1990
Agricultural, forestry and fishery products	2,977	2,998	9,003	8,430	–6,026	–5,432
Fuel and power products	2,016	2,325	13,444	13,745	–11,428	–11,420
Ferrous and non-ferrous ores and metals	5,745	5,612	14,212	12,787	–8,467	–7,175
Non-metallic minerals and mineral products	4,742	5,041	2,364	2,595	2,378	2,446
Chemical products	9,247	9,148	16,300	16,544	–7,053	–7,396
Metal products and machinery	38,202	40,583	27,257	29,825	10,945	10,758
Transport equipment	11,362	13,529	13,674	15,786	–2,312	–2,257
Food, beverages and tobacco products	4,256	4,550	9,596	9,570	–5,340	–5,020
Textiles, leather products and clothing	20,320	22,153	8,401	8,804	11,919	13,349
Other	13,689	14,254	10,867	11,443	2,822	2,811
Total	**112,556**	**120,193**	**125,118**	**129,529**	**–12,562**	**–9,336**

Source: Istat.

Foreign travel generated a surplus of 2.2 trillion lire, a decrease of more than 900 billion on the first six months of last year. In real terms, the surplus contracted by some 500 billion lire. The trend towards a smaller surplus on this item, which has now been under way for several years, accelerated sharply. A substantial rise in earnings from tourism (29 per cent, presumably due in part to the influx of visitors to attend the World Cup matches) was offset by an increase more than twice as large in the corresponding outflow, which rose from 0.7 per cent of GDP in the first half of 1989 to 1.1 per cent in the first half of 1990. This exceptional rise in Italians' spending abroad, much in excess of the already strong adverse long-term trend, must be seen partly in connection with the removal in May of the residual restrictions on the export of means of payment. It is also possible that a significant share of external payments in cash or by means of cheques of less than 20 million lire, which are now automatically entered in the item "foreign travel", may actually be for other purposes.

During the first six months official transfers resulted in a net outflow of some 2.3 trillion lire, compared with 2.1 trillion in the same period of 1989. The deterioration was due to increased net contributions to the EEC, as net transfers to non-EEC countries were virtually unchanged. The decline in transfers from the Community (26 per cent less than a year earlier) was not fully offset by that in Italian contributions (19 per cent). While revenues from the EAGGF diminished by nearly 600 billion lire, outflows in respect of VAT increased by more than 900 billion.

Table 8

Italian merchandise trade by country and area

(billions of lire)

	Exports		Imports		Balance	
	January-July		January-July		January-July	
	1989	1990	1989	1990	1989	1990
EEC	**64,627**	**70,127**	**71,370**	**75,274**	**–6,743**	**–5,147**
Belgium-Luxembourg	3,760	4,134	6,292	6,593	–2,532	–2,459
France	18,726	20,320	18,532	18,950	194	1,370
Germany	19,406	22,040	26,616	27,969	–7,210	–5,929
Netherlands	3,511	3,724	6,744	7,407	–3,233	–3,683
United Kingdom	9,096	8,616	6,084	6,527	3,012	2,089
Ireland	344	337	827	928	–483	–591
Denmark	862	906	1,125	1,246	–263	–340
Greece	2,029	2,176	1,577	1,169	452	1,007
Spain	5,446	6,108	3,056	4,017	2,390	2,091
Portugal	1,447	1,766	517	468	930	1,298
United States	**9,354**	**9,340**	**6,924**	**6,982**	**2,430**	**2,358**
Japan	**2,495**	**2,832**	**2,902**	**3,011**	**–407**	**–179**
Canada	**1,231**	**1,064**	**880**	**1,057**	**351**	**7**
OECD	**90,238**	**96,652**	**95,473**	**100,547**	**–5,235**	**–3,895**
Eastern Europe	**3,350**	**3,667**	**5,058**	**4,446**	**–1,708**	**–779**
of which: USSR	1,897	2,035	2,815	2,557	–918	–522
OPEC	**5,144**	**5,042**	**7,294**	**7,524**	**–2,150**	**–2,482**
of which: Algeria	880	810	1,647	1,695	–767	–885
Saudi Arabia	1,090	937	848	840	242	97
Libya	902	675	2,184	2,511	1,282	–1,836
Iran	392	741	493	790	–101	–49
Other	**13,824**	**14,831**	**17,293**	**17,013**	**–3,469**	**–2,182**
of which: China	1,094	598	1,387	1,335	–293	–737
Total	**112,556**	**120,192**	**125,118**	**129,530**	**–12,562**	**–9,338**

Source: Istat.

Capital movements and the exchange rate

During the first six months of 1990 net capital inflows totaled 36.5 trillion lire, including bank capital flows and gross of errors and omissions (Table 9).

Table 9

Net capital movements
(billions of lire)

	1989		1990 (1)
	Year	H1	H1
Inward investment	20,108	8,351	16,000
Outward investment	–15,295	–4,777	–12,400
of which: portfolio	–12,367	–2,821	–9,200
Foreign loans	19,853	12,659	26,000
Italian loans	–1,708	–621	–4,500
Trade credits, other items and errors and omissions	–8,099	–2,265	–3,300
Non-bank capital flows and errors and omissions	**14,859**	**13,347**	**21,800**
Bank capital flows	**14,979**	**10,429**	**14,700**
Total	**29,838**	**23,776**	**36,500**
Memorandum item:			
Change in official reserves	–15,386	–11,150	–21,400

(1) Provisional and partly estimated.

This massive capital inflow enabled Italy to finance its larger current account deficit while increasing the official reserves by more than 21 trillion lire. The inflow was encouraged by the improvement in Italy's international creditworthiness thanks to the completion of foreign exchange liberalization and investor expectations of exchange rate stability. These factors more than offset the narrowing of interest rate differentials with respect to the main European currencies, already perceptible in the second half of 1989. The adjustment of residents' portfolios proceeded in orderly fashion during the first half of this year.

The importance of capital movements in Italy's balance of payments increased still further, as regards both gross flows and the net inflow of foreign exchange. The Italian domestic financial market has been progressively integrated with markets abroad. Already in 1987 gross capital flows accounted for 56 per cent of total gross flows in the overall balance of payments. By 1989 this share had risen to 59 per cent, and in the first half of 1990 it rose by another 3 percentage points.

Foreign investment and lending gave rise to a capital inflow of nearly 42 trillion lire, more than twice that recorded in the first half of 1989. The corresponding Italian capital outflow was smaller, though still appreciable (16.9 trillion lire, as against 5.4 trillion a year earlier).

The 7.6 trillion lira increase in net inward investment was accompanied, despite the narrowing of the interest rate differential, by a large rise in the net inflow of loans, which approached 26 trillion lire (3.4 trillion of which was connected with Treasury issues), as against 13 trillion lire in the first half of 1989. Between January and June the Eurocurrency market interest rate differentials for the lira vis-à-vis the Deutschemark, sterling and the French franc narrowed respectively by 1.4, 1.1 and 0.2 points. Similar trends emerged in the interbank market and the bond market.

Foreign portfolio investment in Italy amounted to 9.5 trillion lire, accounting for three fourths of total inward investment. Foreign investors again showed increased interest in the Italian financial market, and by the end of June their total portfolio was worth 51 trillion lire, of which 37.5 trillion was invested in government paper. Although most investment was in securities denominated in ecus, some also went into other government securities and into shares (Table 10).

The net outflow of Italian capital in the first six months amounted to nearly 4.9 trillion lire in loans and 12 trillion lire in investment. Net outward portfolio investment, at 9.2 trillion lire, increased by a factor of three compared with the first half of 1989. The net outflow came entirely in the first four months

Table 10

Net foreign portfolio investment in Italy
(billions of lire)

	Government securities							
	Total	Treasury bills	Treasury bonds	Treasury securities in ecus	Treasury credit certificates and other	Bonds	Shares	Total
1989 – 1st qtr.	1,339	912	322	656	–551	–429	967	1,877
2nd "	1,607	–632	155	2,460	–376	44	2,198	3,849
3rd "	8,875	490	393	4,501	3,491	–54	1,687	10,508
4th "	–1,917	480	–86	–475	–1,836	953	1,804	840
Year	9,904	1,250	784	7,142	728	514	6,656	17,074
1990 – 1st qtr.	4,027	–25	240	3,536	276	262	1,054	5,343
2nd "	3,407	62	117	1,612	1,616	–349	1,032	4,090

of the year. A decree law enacted at the end of April provided for the monitoring of external transfers for tax purposes and presumably induced residents to moderate their purchases of external assets, leading to a net inflow of 1.6 trillion lire in May and June. With the revision of certain provisions of the decree (in Decree Law 167 of 28 June), the outflow of capital for portfolio investment almost equalled the rate of over 2.5 trillion lire a month recorded between January and April.

Since mid-May the flow of funds for deposit in residents' bank accounts abroad has been modest. In the four months ending in August, it amounted to 560 billion lire, which was offset by 470 billion of transfers to Italy, so that the net outflow from this source was only 90 billion lire. This slow expansion of the demand for foreign bank accounts was accompanied by little change in residents' foreign-currency accounts with Italian banks. At the end of June, these totaled some 2.8 trillion lire, not appreciably different from the levels recorded in the preceding months.

Total non-bank capital movements, including errors and omissions, resulted in a net inflow of 21.8 trillion lire in the first six months of the year, nearly 8.5 trillion up on the first half of 1989.

There was a net inflow of 14.7 trillion lire through banking channels. The increase in the net external liabilities of the banking system came mostly in the first quarter (11.0 trillion lire). After adjustment for changes in exchange rates and the value of gold, the net official reserves increased by 21.4 trillion lire.

After the adoption of the narrow EMS fluctuation band on 5 January, the lira remained near the upper margin. During the first half, the strains generated by the strengthening of the lira were eased by Bank of Italy purchases of foreign currency totaling nearly 10 trillion lire.

Between January and June the nominal effective exchange rate of the lira rose on balance by 0.8 per cent, appreciating 2.1 per cent against the dollar and by 0.7 per cent vis-à-vis the Community currencies.

The pattern of capital movements changed somewhat in July and August. The resumption of Italian investment abroad, which produced a net outflow of more than 9.6 trillion lire (5.3 trillion for portfolio investment), was accompanied by a slow-down in both net inward investment and in bank capital inflows. In August the combined transactions of operators authorized to trade in foreign exchange resulted in a net outflow of 1.6 trillion lire: net borrowing abroad by the special credit institutions increased by 1 trillion lire, only partially offsetting the reduction in the banks' net external indebtedness. These developments were reflected in the official reserves, which expanded by about 1.3 trillion lire a month, as against 3.6 trillion a month in the first half of the year.

The strains within the EMS eased in the middle ten days of August. The lira, which until then had been near its upper limit against the DM, now moved down towards the middle of the band. The authorities accompanied the market, intervening only to ensure that the depreciation was gradual. Since mid-September the lira has fluctuated around its central rate with respect to the DM.

Between June and September the nominal exchange rate of the lira declined by 1.9 per cent against the other EEC currencies. This was more than offset by a sharp appreciation against the dollar (5.6 per cent), so that the overall effective exchange rate rose by 1.2 per cent.

Public finances

In the first nine months of the year the state sector borrowing requirement, net of settlements of past debts, amounted to 84.7 trillion lire, compared with 81.91 trillion in the corresponding period in 1989 (Table 11). The increase was curbed by the 1990 budget measures and the receipt this year of 2.5 trillion of 1989 revenues.

Table 11

State sector borrowing requirement
(billions of lire)

	1988	1989	1990 (1)
Including settlements of past debts			
1st half	51,486	43,986	48,399
January-September	94,422	83,337	84,871
Excluding settlements of past debts			
1st half	51,367	42,582	48,254
January-September	94,300	81,907	84,702

(1) Provisional. Excludes securities issued to settle the debts of public transport companies and local health units in accordance with Law 262/1989 but not yet recorded in the accounts.

With the aim of bringing the borrowing requirement into line with the annual target of 133.1 trillion lire set in the Government's Forecasting and Planning Report for this year, the measures accompanying the Finance Law were designed to bring a correction on the order of 20 trillion lire, of which around 15 trillion was to be in the form of additional revenue. Parliament approved all the tax measures (expected to produce an additional 12 trillion), while some of the planned increases in charges for public services were postponed to avoid fueling inflation, which had already been affected by the increases introduced in indirect taxes. The bills providing for the sale of assets owned by the state and broader local authority tax-levying powers did not have a smooth passage in Parliament. In order to curb this year's disbursements more effectively, the expenditure cuts in the budget on an accruals basis were supplemented in January by a special directive designed to slow down the payments of government departments.

The budget report that the Treasury Minister submitted to Parliament in March pointed to the need for additional measures in view of the effects on the budget of the divergences from the macroeconomic objectives fixed for 1989 (particularly as regards inflation), the costs imposed by the above-target wage agreements signed in the public sector and the low yield of various tax condonation schemes. The report indicated that the borrowing requirement was likely to rise to 147.35 trillion lire in the absence of corrective measures.

To counter the excessively rapid growth in the deficits of the public finances, a package was introduced in May that was officially expected to produce an adjustment of 11.75 trillion lire, of which 5.8 trillion in the form of additional revenues (to be generated primarily by raising indirect taxes and public service charges), 3.25 trillion in respect of financial transactions and the rest to come from spending cuts. The Economic and Financial Planning Document published in the same month raised the target for the state sector borrowing requirement in 1990 to 135.6 trillion. Present trends suggest that this will not be achieved and that the outturn will be around 140 trillion. Revenue is likely to be about 4 trillion lire less than forecast, owing to a shortfall of around 2 trillion in corporate income taxes, the watering down of the May package when the measures were renewed in July and September (leading to a 1.7 trillion decrease in revenue, of which 1 trillion of tax revenue) and the cut in the taxes on oil products made in September to offset the increase in crude oil prices caused by the Gulf crisis (with a 1 trillion loss of revenue). However, there is a sizable margin of uncertainty in the estimated outturn for the year. On the revenue side, this concerns the receipts of personal income tax levied at source and social security contributions following the signing of wage agreements in the private sector. On the expenditure side, some of the measures that were introduced in May have still to be implemented; the savings involved were originally forecast at 1.85 trillion. Despite the failure to achieve the objectives for the year, the borrowing requirement should fall from 11.1 to 10.7 per cent in relation to GDP and, net of interest payments, by more than a percentage point, from 2.3 to 1.1 per cent. By contrast, the budget deficit on current account is likely to record only a small decline, to 6.4 per cent of GDP (Table 12).

Table 12

Selected state sector balances

(billions of lire)

	1988	1989	1990 (1)
Borrowing requirement, net of settlements of past debts	124,847	132,279	140,000
as a % of GDP	(11.5)	(11.1)	(10.7)
Settlements made in cash ..	64	1,065	500
Settlements made in securities	732	454	4,500
Total borrowing requirement .	125,643	133,798	145,000
as a % of GDP	(11.6)	(11.3)	(11.0)
Borrowing requirement, net of interest payments and settlements of past debts .	37,272	26,888	14,000
as a % of GDP	(3.4)	(2.3)	(1.1)
Current account deficit	78,377	78,624	83,480
as a % of GDP	(7.2)	(6.6)	(6.4)

(1) Estimates.

The steps taken to curb expenditure remain inadequate. Despite the measures adopted, spending in the health field will be far in excess of the allocation to the National Health Fund (the regions estimate that the overshoot will amount to more than 16 trillion lire). The disbursement this year of a part of the increases in public sector wages and salaries attributable to 1989 (but referring to the previous two years), coupled with the inclusion in the accounts of part of the increases and arrears due in 1990 on the basis of the wage agreements signed during the year, could result in wages and salaries rising by 14 per cent in the public sector. The failure to adopt measures to curb social security outlays will result in the 47 trillion lira target for transfers to INPS laid down in the Finance Law for 1990 being exceeded by around 3 trillion lire.

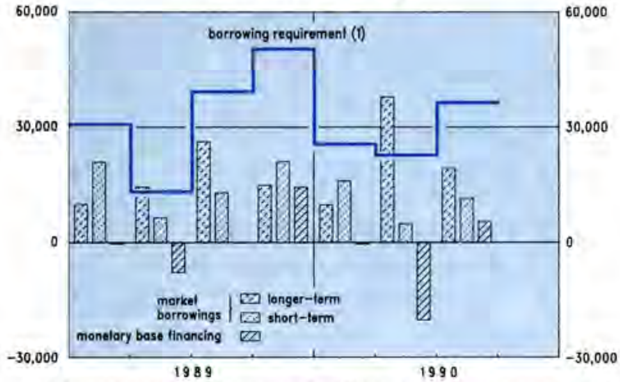
The temporary nature of some of the May package of measures to curb expenditure means that the results achieved are fragile. In particular, the extension of the system of centralized accounts with the Treasury to smaller communes and the restrictions imposed on centralized account withdrawals and purchases of goods and services will only have a significant effect this year. The decree law issued in October renewing the cap on lending to communes and provinces by the Deposits and Loans Fund, which had involved a 7.5 trillion reduction compared with 1989 when it was introduced in May, reinstated 3.5 trillion of lending and limited the applicability of the cap to this year and next. The same decree law also imposed severe restrictions on local authority borrowing from banks, but it has not yet been ratified by Parliament. The rate of increase in wages and salaries in 1991 will be aggravated by their level at the start of the year and the delay in fully implementing new wage agreements.

The need for effective corrective measures is made all the more urgent by the risks described above and the effects that higher oil prices may have on the public finances as a result of faster inflation and slower economic growth.

Despite the strains that developed in the international financial markets, expectations of convergence among the interest rates of the ERM countries and of a slowdown in Italy's rate of inflation facilitated the sale of Italian government paper in the market, at interest rates that declined slightly until July. The demand for medium and long-term variable rate securities was particularly strong and the proportion of the borrowing requirement they financed in the first nine months rose from 45.3 per cent in 1989 to 48.8 per cent. This was larger than the share of Treasury bills, which fell from 36.2 to 30 per cent, the level recorded in 1988; the contribution of PO deposits also declined, from 6.2 to 4.9 per cent.

Figure 12

Quarterly state sector borrowing requirement and its financing



(1) Gross of settlements of past debts. For 1990, excludes securities issued to settle the debts of public transport companies and local health units in accordance with Law 262/1989 but not yet recorded in the accounts.

The market's demand for government paper and the increase in funds raised abroad (from 9.2 to 12.3 per cent of the borrowing requirement) made it possible to reduce central bank financing. The overdraft on the Treasury's current account with the Bank of Italy decreased by about 2.1 trillion lire in the first nine months of the year (compared with a reduction of just over 3.3 trillion in the corresponding period in 1989). The reduction in the borrowing requirement during the summer following the receipt of tax instalments, coupled with a high level of sales in the new issue market, brought the amount available on the Treasury's current account to over 20 trillion lire. The large borrowing requirement in September and weak demand for government securities narrowed this margin to 8.9 trillion by the end of that month.

State sector revenue and expenditure

Central government tax revenue amounted to 239.85 trillion lire in the first nine months, an increase of 14 per cent compared with the corresponding period in 1989 (Table 13).

The rates of increase in direct and indirect tax receipts were roughly the same, though the causes were different. The 14.6 per cent rise in direct taxes was primarily due to the increase in taxable income and the fact that measures introduced during 1989 were operative throughout the period, while the 13.2 per cent rise in indirect taxes was mainly attributable to the 1990 budget measures adopted in September 1989.

Personal income tax made a major contribution in the first nine months, with revenue rising by 16 per cent. This largely reflected the 18.7 per cent increase in the tax levied at source on pensions and public and private sector earnings. The tax levied on pensions and private sector earnings rose by 15.8 per cent. Even though fiscal drag was automatically offset from the beginning of the year, the withholding tax on private sector employees increased by no less than 13.5 per cent when it is adjusted for collection lags and the payment of annual balances in the early months of the following year. The upward trend of budget receipts is confirmed by the more accurate figures published later by the Ministry of Finance, which show an increase of 12.4 per cent in the first half of the year.

Less satisfactory results were recorded for the balance of 1989 self-assessed personal income tax, paid in May, and for the first instalment for 1990, also paid in May. The former declined by 3.5 per cent and the latter only rose by 2.6 per cent, primarily as a result of the relief granted last year. The fall in the balance was presumably due, on the one hand, to more taxpayers having claimed tax credits for 1989 instead of including an application for reimbursement in their tax returns and, on the other, to the deduction from taxable income of the municipal tax on businesses and the self-employed (Iciap). On the positive side, receipts were boosted by the anti-evasion provisions that came into force, the new system of non-itemized assessment for small taxpayers and the rerating of property. Since self-assessed local income tax underwent only marginal changes, the effects of these measures can be seen in the increases of respectively 15.6 and 12.6 per cent in the balance of this tax for 1989 and the first instalment for 1990.

Table 13

State sector tax revenues (1)

(billions of lire)

	January-June 1989	January-June 1990	% change	January-September 1989	January-September 1990 (2)	% change
Direct taxes						
Personal income tax	49,155	54,451	10.8	67,342	78,099	16.0
of which: withholding tax on public sector wages and salaries	*6,409*	*8,528*	*33.1*	*10,445*	*13,524*	*29.5*
witholding tax on pensions and private sector earned income	*25,732*	*27,980*	*8.7*	*37,941*	*43,918*	*15.8*
self-assessed balances	*7,163*	*6,950*	*–3.0*	*7,215*	*6,961*	*–3.5*
self-assessed instalments	*4,831*	*4,936*	*2.2*	*4,851*	*4,976*	*2.6*
Corporate income tax	7,422	7,709	3.9	10,636	11,018	3.6
of which: self-assessed balances	*3,217*	*3,482*	*8.2*	*4,891*	*5,075*	*3.8*
self-assessed instalments	*4,002*	*4,007*	*0.1*	*5,504*	*5,614*	*2.0*
Local income tax	9,991	10,501	5.1	12,012	12,812	6.7
of which: personal income tax	*4,060*	*4,643*	*14.4*	*4,088*	*4,675*	*14.4*
self-assessed balances	*2,363*	*2,729*	*15.5*	*2,381*	*2,753*	*15.6*
self-assessed instalments	*1,697*	*1,914*	*12.8*	*1,707*	*1,922*	*12.6*
corporate income tax	*5,548*	*5,504*	*–0.8*	*7,479*	*7,624*	*1.9*
self-assessed balances	*2,494*	*2,457*	*–1.5*	*3,461*	*3,478*	*0.5*
self-assessed instalments	*3,054*	*3,047*	*–0.2*	*4,018*	*4,146*	*3.2*
Withholding tax on interest income	11,333	9,421	–16.9	13,867	17,923	29.2
of which: in respect of bank deposits	*6,763*	*3,223*	*–52.3*	*6,793*	*8,410*	*23.8*
in respect of government securities (3)	*3,130*	*4,291*	*37.1*	*4,797*	*6,555*	*36.6*
Withholding tax on dividends	1,265	1,436	13.5	1,983	2,273	14.6
Other	1,565	944	–39.7	1,791	1,272	–29.0
Total . . .	**80,731**	**84,462**	**4.6**	**107,631**	**123,397**	**14.6**
Indirect taxes						
VAT (4)	40,352	45,016	11.6	59,368	64,804	9.2
Other business taxes (5)	11,769	13,427	14.1	15,812	18,180	15.0
Excise taxes on oil products	12,166	14,573	19.8	18,296	22,329	22.0
Other excise and sales taxes (5)	2,282	3,045	33.4	3,490	4,708	34.9
Tobacco taxes	2,815	2,940	4.4	4,336	4,411	1.7
Gaming taxes	1,135	1,412	24.4	1,465	1,942	32.6
Other	44	49	11.4	65	76	16.9
Total . . .	**70,563**	**80,462**	**14.0**	**102,832**	**116,450**	**13.2**
Total tax revenues . . .	**151,294**	**164,924**	**9.0**	**210,463**	**239,847**	**14.0**

(1) Net of tax collection commissions and accounting transactions with special statute regions. – (2) Provisional. – (3) The data have been adjusted to take account of delays in recording items in the accounts. – (4) Includes the receipts used to settle tax credits and those accruing to the EEC. – (5) Includes the proceeds of surtaxes on electricity consumption (levied by the tax authorities for disbursement to local authorities) as well as the share of the road vehicle tax allocated to local authorities.

The balance for 1989 of corporate income taxes and the first instalment for 1990 both increased by around 2.5 per cent, reflecting the slowdown that normally occurs in the year following a period of increasing instalments. Indeed, the tax base appears to have expanded by 15 per cent, or by much more than company profits. Most of the difference can be attributed to the limits that came into force in 1989 on the deductibility of certain costs and to the restrictions imposed on accelerated depreciation, which are officially estimated to have brought in an extra 2 trillion lire. The slower growth in the withholding tax on dividends (13.5 per cent as against 17.7 per cent in the first nine months of 1989) reflected the lower level of dividends per share and points to a fall in corporate profitability compared with the previous year.

Revenue from the withholding tax on interest payments rose by 29.2 per cent, primarily as a result of the 23.8 per cent increase in the amount levied in respect of bank deposits. About half of this increase was due to the growth in the deposit base and the rest to the small rise in interest rates between 1988 and 1989. The withholding tax on income from government securities increased by 36.6 per cent after taking account of the delay in recording an amount (in respect of Treasury bonds) estimated at just over 1.4 trillion lire for the first nine months of the year. Nearly half of this increase can be attributed to the larger volume of gross issues of Treasury bills, while the rest was a consequence of the decline compared with September 1989 in the amount of outstanding paper that was tax exempt or taxed at the rate of 6.25 per cent instead of the current 12.5 per cent. The withholding tax on the interest earned on the bonds issued by firms and special credit institutions also grew strongly.

Business taxes and duties were only marginally influenced by the 1990 budget measures, which mostly raised other indirect taxes, and increased by 10.4 per cent. Though this result was affected by revenue attributable to 1989 having been collected in 1990 and the erroneous recording of some receipts, it is confirmed, after adjusting for the delay in collection, by the figures published by the Ministry of Finance for the first eight months of the year. The 9.2 per cent increase in total VAT revenues was the result of slower growth in the import component (5.8 per cent), attributable to the less pronounced rise in the value of imports (3.7 per cent in the first half of the year). Domestic VAT revenue rose by 11.4 per cent, but this figure appears to have been affected by the recording errors mentioned above since the Ministry of Finance figures, adjusted for the delay in collection, indicate that receipts rose by around 10 per cent in the first eight months of the year, in line with the expansion of the tax base. Excise and sales taxes rose by 24 per cent as a result of the repeated increases in the tax on oil products in the second half of last year. Some of the increases were designed to offset the fall in producer prices, while others were part of the budget measures for 1990.

In the light of the results to date, tax revenue for the year should increase by around 14 per cent and in relation to GDP by 1.1 percentage points to nearly 26 per cent, which implies a shortfall of 0.4 points compared with the target set in the Economic and Financial Planning Document published in May.

State sector outlays in the first half of 1990 amounted to 257.6 trillion lire, an increase of 10.5 per cent on the first half of 1989. Current outlays rose by 12.8 per cent, with interest payments rising especially fast. On the other hand, disbursements on capital account and in respect of financial transactions declined respectively by 0.7 and 11.4 per cent (Table 14).

Compared with the first half of 1989, state sector spending on wages and salaries rose by 15 per cent. This figure falls by roughly two points when account is taken of the delays in recording withholding tax and social security contributions. The growth in employment and cost-of-living allowances are estimated to have caused a little more than three points of the total increase. Most of the rest was due to the inclusion in the accounts of contractual wage and salary increases and the disbursement of amounts on account to employees whose wage agreements have been signed but not yet formalized. As regards school staff, who comprise nearly half of state sector employment, the last tranche of the increase agreed in 1988 came into effect in May and accounted for about 3 percentage points of the rise in school wages and salaries between the first half of 1989 and the first half of this year.

Table 14

Main items of the consolidated accounts of the state sector on a cash basis
(billions of lire; % changes on year-earlier period)

	1989 H1	1990 H1	1990/1989
Current expenditure	**200,644**	**226,398**	**12.8**
Wages, salaries and pensions	46,639	53,612	15.0
of which: wages and salaries	*35,904*	*41,278*	*15.0*
Goods and services	11,071	11,530	4.1
Current transfers	85,915	93,411	8.7
of which to: social security institutions	*19,978*	*21,802*	*9.1*
regions	*35,293*	*37,061*	*5.0*
communes and provinces	*13,955*	*16,860*	*20.8*
households	*6,659*	*7,849*	*17.9*
enterprises	*5,329*	*5,361*	*0.6*
Net interest payments	49,183	59,239	20.4
Capital expenditure	**22,038**	**21,878**	**–0.7**
of which: fixed capital	*7,520*	*8,524*	*13.4*
capital transfers	*14,424*	*13,159*	*–8.8*
Financial items	**10,521**	**9,326**	**–11.4**
of which: investments	*930*	*440*	*–52.7*
loans and advances	9,591	8,886	–7.4
Total expenditure	**233,203**	**257,602**	**10.5**

Source: The Quarterly Report on the Cash Budget submitted to Parliament by the Minister of the Treasury.

Interest expenditure, adjusted for the delay in recording the withholding tax on Treasury bond interest mentioned earlier, amounted to 59.24 trillion lire in the first half, an increase of 20.4 per cent compared with the first half of 1989. About twelve points of the increase were attributable to the growth in the public debt, about one point to the different composition of issues and the rest to the rise in interest rates. The interest paid on Treasury bills increased by 21.4 per cent and accounted for 30 per cent of the total. Seventeen points of this increase were due to the larger volume of gross issues and to the shift in favour of six and twelve-month paper, the rest reflecting the small rise in the rates paid in the two half-years. Interest payments on Treasury credit certificates increased by 13 per cent and accounted for 40 per cent of the total. Of the increase, 5 points were attributable to the increase in the volume of securities, while the rest stemmed from the rise in interest rates between 1988 and 1989.

Purchases of goods and services increased by 4.1 per cent. The items charged to the budget rose by only 2 per cent, with spending on defence falling by nearly 25 per cent, from 4.45 to 3.38 trillion lire. The increase in disbursements was curbed mainly by the cuts in allocations imposed in the Finance Law and by the directive issued by the Prime Minister in January.

Transfer payments to the social security institutions increased by 9.1 per cent. Net of the contributions charged to the budget, they increased by 7.6 per cent to 18.83 trillion lire. The rise in this item was moderated by INPS concentrating the payment to the Treasury of the contributions due to the National Health Fund in the second part of the year. When account is taken of the share of these contributions attributable to the first half of the year, the deficit recorded by INPS exceeded 6/13 of the budgeted transfers to the Institute for the year (47 trillion), so that the annual total is expected to rise to 50 trillion.

The expansion in the funding required by the social security institutions was fueled by the large gap between the pension increases disbursed during 1989 on the basis of the target rate of inflation and those calculated at the end of the year on the basis of the actual rate of inflation. In order to make good the shortfall, pensions were raised by about 3 per cent at the beginning of this year and back payments made amounting to nearly 1.5 per cent of the annual total. The mechanism for adjusting pensions on the basis of real earnings was not triggered, however, since the relevant index remained virtually unchanged in the reference period. The supplements introduced in Law 544/1988 were increased from 1 January. These supplements are applicable to some of the minimum pensions received by persons aged over 65 and to the minimum pensions received by persons who contributed for more than fifteen years. Social security spending was also boosted by the increase, with effect from 1 January, in ordinary unemployment benefits from 15 to 20 per cent of beneficiaries' earnings and by the 13.2 per cent increase in the annuities paid by INAIL (the National Industrial Accidents Insurance Institute).

The rise in transfer payments to the social security institutions was moderated by the rapid growth in contributions, which is expected to exceed that of the base by more than two points for the year as a whole. The result for the first half of the year benefited from the inclusion of around 1 trillion lire of 1989 contributions as a result of bank strikes. It was also affected by measures adopted in 1989, including the 0.41 point increase in the rate of contributions to the INPS Employee Pension Fund and the provisions regarding the minimum earnings for contributory purposes of persons paying on a voluntary basis. The contributions payable by local authority and health service employees were increased by 0.3 points from 1 January and those payable by central government employees by 0.2 points.

As regards expenditure on capital account, direct investment rose from 7.52 to 8.52 trillion lire. This reflected increases in the disbursements of the autonomous government agencies and the Southern Italy Development Agency. By contrast, transfer payments to both firms and nearly all the categories of local authority decreased, with total capital transfers falling from 14.42 to 13.16 trillion.

The reduction in financial transactions, from 10.52 to 9.33 trillion lire, was attributable to the sharp drop in the operations of the Deposits and Loans Fund. As a result of the cap imposed on Fund lending in May, loans to communes and provinces fell from 5.19 to 4.18 trillion, while those granted to regions for the purpose of consolidating past debts declined from 2.74 to 2.31 trillion. Fund purchases of securities issued by special credit institutions dried up almost completely, falling from 320 to 2 billion lire.

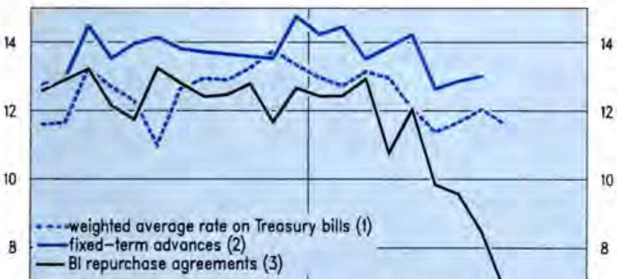
The money and financial markets

The money and credit aggregates and monetary policy

Until July, the counter-inflationary impact of a monetary policy oriented towards exchange rate stability was reinforced by the decline in the dollar prices of raw materials, the depreciation of the dollar and the slackening of domestic demand. Italy's adherence to the narrow EMS fluctuation band from January onwards and the completion of exchange liberalization in May further strengthened confidence in the Italian economy and in the stability of the lira, leading to massive net inflows of foreign exchange. Within Italy, the steady improvement in market sentiment from the spring onwards stimulated growing demand for government securities, which helped to bring down nominal interest rates and facilitated control of the money aggregates.

Figure 13

Short-term interest rates



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

The onset of the Gulf crisis in August changed the frame of reference for the financial markets. Fear of a resurgence of inflation and growing uncertainty led investors to shift towards shorter-term assets; the Bank of Italy had to intervene to prevent interest rates from rising excessively, taking account of the movement of rates abroad.

Over the course of the year, interest rate movements have reflected changes in the macroeconomic picture as well as foreign exchange flows. In the first quarter, domestic interest rates rose by about half a point in connection with the rise in rates abroad and the uncertain short-term outlook at home, with inflation still at the high level reached at the end of 1989 and the objectives for the public finances appearing difficult to attain. Demand for government securities subsequently grew and shifted more decisively towards medium and long-term issues, owing in part to the improvement in the macroeconomic picture, characterized by decelerating inflation and improved expectations in the wake of the fiscal measures adopted by the Government in May. In this setting it became possible in May to reduce the official discount rate by one point to 12.5 per cent and to offer fixed rate government securities with a 7-year maturity. Interest rates fell rapidly and by July were about two points below the peaks recorded the previous November, with the weighted average rate on Treasury bills declining to 11.7 per cent on the

Figure 14

Real interest rate on 6-month Treasury bills (1)

(1) Estimated net of inflation. Data at start of each quarter. The broken line indicates partly estimated data. – (2) The deflator is the effective change in the consumer price index over the six months following the observation period on an annual basis. – (3) The deflator is the expected change in prices calculated by the Bank of Italy on *Mondo Economico* data (expected consumer price inflation in the six months following the observation of the interest rate, calculated on the basis of quarterly inflation expectations).

Lira exchange rates and interest rate differentials

From January to July the lira remained close to the upper limit of the EMS fluctuation band. Two factors help to account for its strength in this period. In the first place, the differential between Italian interest rates and those abroad remained positive, even if narrowing. Secondly, a hard-to-quantify but undeniable revival in market confidence in the short-term prospects of the Italian currency reduced the "risk premium" that investors demanded in order to take and hold positions in lire.

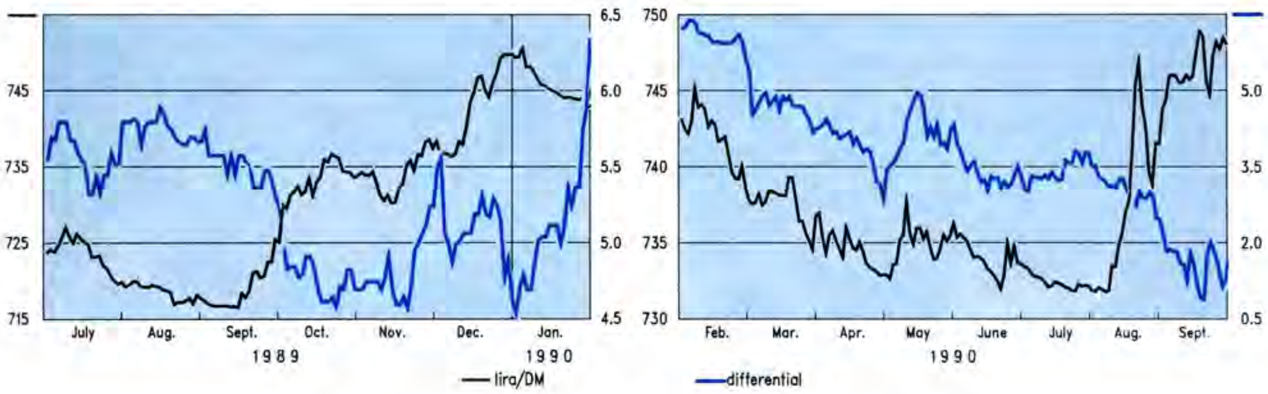
The two factors may have acted in tandem, for greater confidence in the lira is likely to have enhanced the tendency for the rate differential to stimulate capital inflows, which in turn caused the differential to narrow. Considered separately, however, the two factors have different implications for the short-term relationship between interest rate differentials and exchange rates: whereas a restrictive monetary shock, for example, will be followed by a widening in the differential between domestic and foreign rates and a strengthening of the exchange rate, an exogenous improvement in exchange rate expectations (like that linked to the lira's entry into the narrow EMS band) will bring both an appreciation of the currency and, in the event of unsterilized intervention by the Bank of Italy, a reduction in the interest rate differential.

The interaction between the two factors and the important part played by the stability of expectations after the lira's entry into the narrow band emerge clearly from daily exchange rate and interest rate data shown in Figures 1 and 2. In the second half of 1989, the correlation between the one-month interbank rate differential and the exchange rate, as depicted in the respective figures, was mainly negative *with respect to both the Deutschemark and the French franc, so that the lira appreciated*

Figure 1

The lira/DM one-month interbank rate differential and exchange rate

(daily data)



primary market (Figure 13) and with secondary market yields on Treasury credit certificates decreasing by a similar amount. Real interest rates declined despite a fall in expected and actual inflation, reversing the increase recorded in the early months of the year and dropping back to around the average levels for 1989 (Figure 14). The decrease in interest rates in Italy was larger than that abroad; the differentials vis-à-vis Germany narrowed by a point and a half across the board. The lira nevertheless stayed at the upper margin of the EMS fluctuation band, frequently reaching its limit against the French franc and occasionally also against the Deutschemark (see insert: "Lira exchange rates and interest rate differentials"). Beginning in July, the Bank of Italy reduced the rates on securities repurchase agreements to below 10 per cent in order to avoid exchange rate tensions.

In August the secondary market yield on medium and long-term securities rose by nearly a point, a larger increase than that on comparable issues on the *(depreciated) as the differential between domestic and foreign rates widened (narrowed). This confirms the view that the changes in relative monetary conditions produced by varying interest rates were primarily responsible for the movements in the exchange rate in the period in question. The pattern for three-month rates was similar, though not as definite, while there was practically no correlation between the exchange rate and the overnight rate differential owing to the large random movements characteristic of that segment of the Italian interbank market.*

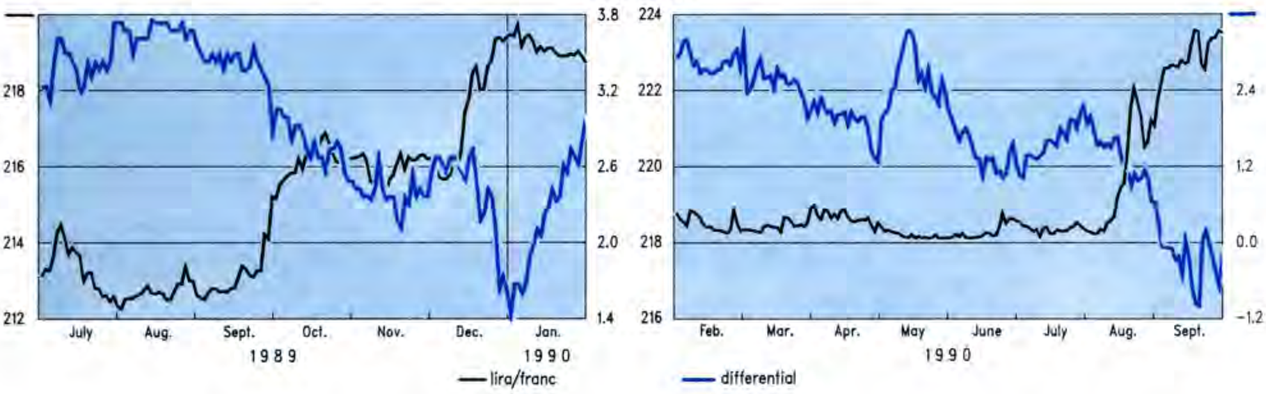
The situation changed in the months immediately after January 1990. The differential between Italian and German rates tended to be positively correlated with the lira's exchange rate against the Deutschemark. This is consistent with the view that, following the lira's adhesion to the narrow band, exchange rate expectations were the most important factor influencing the lira/DM rate and domestic liquidity and hence yield differentials. By contrast, the lira/franc exchange rate and the differential between Italian and French interest rates were not significantly correlated. In the period from January to July the franc remained close to the lower limit of the fluctuation band, frequently in opposition to the Italian currency, which prevented the exchange rate of the lira against the franc from reflecting money market conditions.

The correlation between the variables under review turned negative again in August and September, when liquidity was expanded temporarily to redress the situation in the securities market (described in the insert: "Bank of Italy intervention in the money market"). A further reduction in the interest rate differentials – the differential in respect of French rates even changed sign – was accompanied by the lira's return towards the centre of the fluctuation band.

Figure 2

The lira/French franc one-month interbank rate differential and exchange rate

(daily data)



main foreign markets. The issue yield on Treasury bills went up by an average of 0.4 points, with larger increases for 6 and 12-month maturities. At the beginning of September, issues of medium and long-term government securities remained largely unsubscribed, even though the base rate fixed for Treasury bonds was about half a point higher than those set before the outbreak of the Gulf crisis. Market demand for shorter-term paper was not accommodated, however; the Bank of Italy reduced the volume of very short-term operations used to soak up bank liquidity, and market operators quickly shifted back to longer maturities (see insert: "Bank of Italy intervention in the money market"). The upward pressure on yields eased during the month, and at the end of September yields on the secondary market were about half a point higher than they had been in July, similar to the average changes abroad. In the last ten days of the month bank liquidity was brought back into line with the basic objectives of monetary policy, falling to an average of 5.8 trillion lire, compared with 8 trillion in the two preceding ten-day periods.

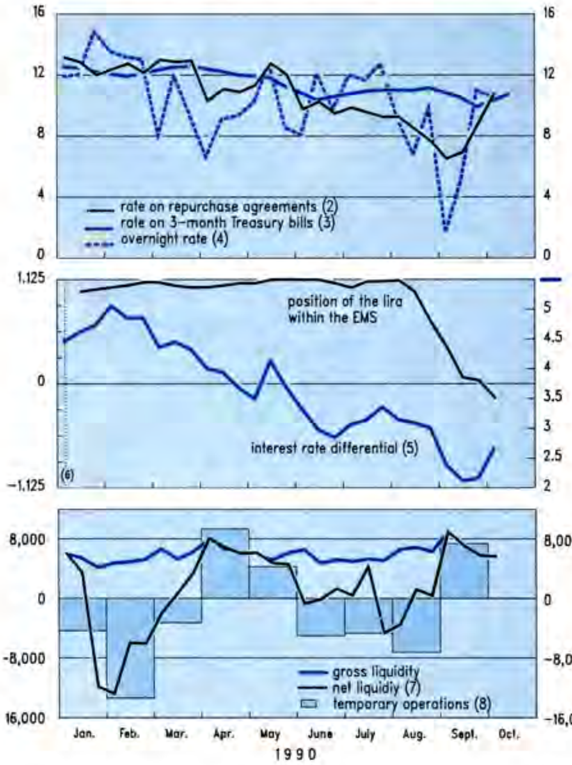
Bank of Italy intervention in the money market

In the months following Italy's decision to adhere to the narrow fluctuation band of the EMS the lira remained close to the upper limit of the band, despite very large purchases of foreign currency by the Bank of Italy (see Figure). The central bank did not completely offset the effects of the inflow of foreign currency through its intervention in the secondary market, seeking in this way to reconcile the goal of curbing inflation with the need to avoid tension within the EMS. The interest rate differential vis-à-vis the other leading EMS currencies narrowed steadily.

In March *and* April, *Bank of Italy intervention allowed the inflows of foreign currency and the high government borrowing requirement to be reflected to some extent in liquidity conditions: the overnight rate fluctuated around 9 per cent, compared with 13 per cent in the previous two months. In March, heightened uncertainty as to whether the targets for the public finances would be achieved, together with the persistence of the increase in long-term rates abroad, made it difficult to sell fixed rate securities. Following the poor results of the mid-month auction of Treasury bonds, issues were adapted more to the pattern of demand through the offer of larger volumes of short-term and variable rate securities. The end-April issue of Treasury credit certificates was enormously oversubscribed, by more than a factor of thirty.*

In May, *the removal of all the remaining restrictions on capital movements and the lowering of the discount rate from 13.5 to 12.5 per cent were followed by a further surge in the inflow of foreign currency, which exceeded 6 trillion lire in the second half of May alone. The lira remained close to the upper limit of the fluctuation band, for most of the time in contraposition to the French franc. An unwanted easing of monetary conditions was avoided by means of large issues of securities and outright sales by the Bank of Italy in the secondary market. Expectations of a fall in interest rates were strengthened by the adoption of a package of measures designed to reduce the borrowing requirement, and this boosted the demand for medium-term government paper and permitted a return to positive net issues of fixed rate securities. The smaller volume of shorter-term issues, coupled with the cut in the discount rate referred to above, made it possible to bring down the net average yield on Treasury bills to 10.2 per cent at the end-May auction, a reduction of more than one percentage point compared with April.*

Money market rates, position of the lira within the EMS and bank liquidity (1)



(1) Except for 3-month 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) Weighted average of bid-asked prices. – (5) The difference between the Italian 3-month interbank rate and the equivalent German rate. – (6) 8 January 1990: adoption of the narrow fluctuation band for the lira. – (7) Net of fixed-term advances and repurchase agreements. – (8) Net position of the banking system vis-à-vis the central bank in respect of temporary operations.

In June *revenue exceeded expenditure by a substantial 9.1 trillion lira as a result of the receipt of the first instalment of personal income tax, but the Treasury nonetheless made net issues of securities to prevent excessive interest rate fluctuations and increase the amount available on its overdraft facility with the Bank of Italy in view of the very large commitments falling due in the second half of the year. To prevent liquidity conditions from becoming excessively tight, the Bank of Italy made gross temporary purchases in the secondary market totaling 21 trillion lire. The net debt of the banking system vis-à-vis the central bank amounted to 5 trillion lire at* *the end of the month. The fall of about one percentage point in the differential between interbank rates in Italy and those obtaining in France and Germany did not prevent the lira from staying at the upper limit of the EMS fluctuation band. The inflow of foreign currency during the month totaled 6.2 trillion lire. With the aim of lengthening the average maturity of the public debt and raising the proportion of fixed rate securities, the authorities decided to take advantage of the favourable market conditions – created by expectations of a reduction in interest rates and the propensity of foreign investors to buy lira-denominated securities – to issue Treasury bonds with a longer maturity. The new seven-year paper was well received and two 1.5 trillion lira tranches were subscribed at after-tax rates of 11.7 and 11.5 per cent.*

In July, *the better-than-expected performance of the public finances and a smaller inflow of foreign currency led to a decrease in banks' free reserves compared with June, and the overnight rate rose from 10.3 to 12.2 per cent. The Treasury's substantial net receipts at the end of the month caused banks to have large-scale resort to temporary central bank financing; applications totaling 13 trillion lire were accepted and banks' free reserves were negative by about 4.5 trillion lire during the last ten days. The demand for government securities remained strong, though tender rates generally rose slightly compared with the lowest values recorded in June. However, the yield on Treasury credit certificates dropped to 11.4 per cent, partly as a result of the switch to auction sales.*

The situation at the beginning of August *was basically the same as in earlier months: the inflow of foreign currency reserves continued and the lira remained close to its upper limit within the EMS. The take-up of government securities was satisfactory and tender rates were virtually unchanged.*

The outbreak of the Gulf crisis brought a radical change in the second ten-day period by provoking generalized stock market falls and expectations of higher inflation internationally. The financing of the borrowing requirement became more difficult: compared with July, there was a twenty basis point rise in the tender rate on three-month Treasury bills, while the yields on six and twelve-month bills rose by about half a percentage point. The Bank of Italy made outright purchases, mostly of fixed rate securities, amounting to 2.3 trillion lire and eased monetary conditions temporarily, with the rate on repurchase agreements falling to 7.7 per cent. The exchange rate of the lira dropped towards the centre of the EMS fluctuation band and, for the first time for several months, there were outflows of foreign currency, though on a minor scale.

At the beginning of September, *the market was even less willing to buy medium-term securities, despite the rise of 47 basis points in the base rate on Treasury bonds. Despite redemptions of Treasury bonds totaling 11.9 trillion lire, investors took up only 8 trillion of the 13 trillion of Treasury bonds and credit certificates on offer. The net yield at auction on Treasury bonds rose to 12.4 per cent, half a point and one point higher than for the two previous issues.*

The tendency for investors to shift their demand to the short end of the market might have persisted if they had expected that the Bank of Italy would automatically provide unlimited opportunities for short-term investment in the form of repurchase agreements. However, with the aim of redirecting demand towards the longer end of the market, the Bank of Italy supplied only a very small quantity of these instruments for a short period lasting until the middle of the month. This caused liquidity to become abundant, and banks' free reserves averaged around 8 trillion lire in the first two ten-day periods of September; the rate on repurchase agreements and the overnight rate fell respectively to 6.9 and 3.7 per cent. This policy rapidly produced the desired effect: at the mid-month auction 7.5 trillion lire of medium-term securities were offered, but demand totaled 15.5 trillion; the after-tax rate on Treasury bonds dropped to 11.8 per cent. On the foreign exchange market the narrowing of the differential between domestic and foreign interest rates (the differential in respect of the interbank rates on lire and French francs actually changed sign) was reflected in a decline of the lira below its central rate. Monetary conditions ceased to be expansionary in the last ten days of the month, when bank liquidity fell to 5.8 trillion and the overnight rate rose to 11.1 per cent.

At the beginning of October, *demand for securities remained strong both in the secondary market and for new paper: issues of Treasury bills totaled 13.5 trillion lire and those of medium-term securities 14 trillion (6 trillion of credit certificates, 4 trillion of bonds and 4 trillion of option certificates), while the actual demand for short and medium-term securities amounted to 16.8 and 19.3 trillion respectively. Compared with the end-September auction, tender rates rose somewhat except for those on Treasury credit certificates. The rise was particularly pronounced for three-month Treasury bills, the yield on which increased by 70 basis points to 9.7 per cent.*

The lira moved towards the centre of the EMS fluctuation band and returned to the rate at which it had been trading against the Deutschemark at the time of its entry into the narrow band.

Table 15

Monetary variables
(percentage changes) (1)

	1989		1990 (2)
	Jan.-Sept.	Year	Jan.-Sept.
Bank reserves (3)	10.2	9.2	7.0
Monetary base (3)	10.9	9.4	8.8
Bank deposits	8.0	8.0	7.8
Money supply net of CDs (M2A)	5.4	5.7	5.8
Money supply (M2)	9.9	9.4	9.1

(1) On an annual basis and seasonally adjusted, with stocks at December 1989 corrected to eliminate the effects of strikes in the banking sector. – (2) Provisional. – (3) Corrected for the change in the compulsory reserve ratio.

The growth in the M2 money supply remained broadly within the annual target range of 6-9 per cent in the first nine months of the year (Table 15); the aggregate expanded at a seasonally adjusted annual rate of 9.1 per cent between January and September, compared with 9.4 per cent in 1989 as a whole. Postal deposits and notes and coin were the most dynamic components; the volume of funds raised by the banking system grew moderately, with a larger proportion in the form of certificates of deposit. The central bank used open market operations to counter the expansionary effects of capital inflows. As in the previous two years, the foreign sector was the leading source of monetary base creation (Table 16).

The non-state sector's domestic financial assets, excluding shares, grew at a faster pace – 11.6 per cent on a seasonally adjusted annual basis between January and July, the latest month for which data are available. The difference between this and the growth in the money supply reflects massive purchases of government securities by the household and corporate sectors, as well as purchases of CDs issued by special credit institutions (Table 17). Treasury bills accounted for a smaller proportion of net new financial assets than in the corresponding period of 1989, whereas the share of medium and long-term paper rose, especially that of floating rate securities which increased at the expense of Treasury bonds.

Table 16

Monetary base
(changes in billions of lire)

	1989		1990 (1)
	Jan.-Sept.	Year (2)	Jan.-Sept. (2)
Sources			
Foreign sector	19,278	14,971	24,990
Treasury	–8,026	6,382	–15,198
Borrowing requirement	*83,337*	*133,798*	*84,871*
(excluding settlements of past debts)	*(82,722)*	*(132,602)*	
Outstanding securities excluding BI	*–72,585*	*–97,890*	*–79,655*
Other financing (3)	*–18,778*	*–29,526*	*–20,414*
Refinancing of banks	–185	1,203	–1,374
Other sectors	–2,139	–2,019	–5,478
Total	**8,929**	**20,537**	**2,940**
Uses			
Currency in circulation	761	10,507	–3,822
Bank reserves	8,168	10,030	6,763
Compulsory reserves	*8,701*	*9,567*	*8,342*
Liquidity	*–533*	*463*	*–1,579*

(1) Provisional. – (2) The data reflect the abnormal expansion of monetary base, estimated at 5 trillion lire, resulting from strikes in the banking sector at the end of 1989. – (3) Includes PO deposits, foreign loans and other items.

The growth of domestic credit to the non-state sector slowed down considerably from the 18.6 per cent recorded in 1989 and approached the annual rate of around 12 per cent foreseen in the planning exercise for 1990; in the first nine months of the year it expanded by 12.5 per cent on an annual basis (Table 18). More broadly, the total volume of both foreign and domestic credit to the non-state sector was less restrained; in the twelve months to June, it expanded by 18.4 per cent, down from 19.5 per cent in 1989.

Credit demand slackened, most markedly over the summer, in connection with the slower growth of economic activity. Though remaining strong, recourse to foreign currency bank loans increased less rapidly owing to the diminishing impact effect of the new foreign exchange regime adopted in October 1988 and the narrowing of interest rate differentials with other countries. On the other hand, credit demand was fueled by the sustained growth of households' consumption.

Table 17

Financial assets (1)
(percentage composition)

	Stocks		Flows	
	July 1989	July 1990	12 months ending in July 1989	12 months ending in July 1990
Money (M2)	48.7	46.6	37.9	32.2
of which: *bank deposits*	*38.1*	*36.1*	*27.6*	*21.7*
Treasury bills and acceptances	15.7	16.1	26.9	20.2
Special credit institution CDs	3.2	3.4	4.9	5.5
Medium-term securities	29.1	30.8	35.5	42.8
Investment fund units	3.3	3.0	–5.4	–0.9
Total ...	**100.0**	**100.0**	**100.0**	**100.0**

(1) Domestic financial assets of the non-state sector, excluding direct holdings of shares. Inclusion of minor items may cause discrepancies in the totals.

The slowdown in lending chiefly affected the banks, whose loans to the non-state sector increased at a seasonally adjusted annual rate of 12.3 per cent in the first nine months of the year, compared with 22 per cent last year, in part as a result of their less expansionary lending policy. By contrast, special credit continued to expand briskly thanks to the persistent buoyancy of investment and real estate transactions. Special credit institutions' lending to the non-state sector grew by 16 per cent on an annual basis between January and September, similar to the rate recorded for 1989.

Total domestic credit expanded at an annual rate of 10.3 per cent in the first nine months of the year, as against 15.2 per cent in 1989. The broadly stable state sector borrowing requirement and the slower growth in lending by credit intermediaries contributed to the deceleration. In addition, increased foreign borrowing by the state sector reduced its domestic borrowing by around 5 trillion lire compared with last year.

Table 18

Total domestic credit
(percentage changes) (1)

	1989		1990 (2)
	Jan.-Sept.	Year	Jan.-Sept.
Bank lending (3)	21.4	22.1	12.3
Special credit institution lending	16.3	15.7	16.0
Net bond issues	–1.7	–1.4	–8.6
Non-state sector financing	**18.3**	**18.6**	**12.5**
State sector domestic borrowing requirement (4)	10.6	13.1	8.9
Total domestic credit	**13.5**	**15.2**	**10.3**

(1) On an annual basis, seasonally adjusted. – (2) Provisional. – (3) Corrected for exchange rate variations and the funding of past debts. – (4) Net of contributions to financial intermediaries' endowment funds and of funding operations.

The activity of credit intermediaries

The composition of the banks' balance sheets continued to change in accordance with the trends of recent years. The share of loans increased to more than 70 per cent of total bank loans plus securities, the highest proportion in fifteen years; only three years ago they accounted for less than 60 per cent. The data on bank loans according to the new classification of bank customers, presented here for the first time, show that the fastest growth was in relatively new sectors such as consumer credit and finance to non-bank intermediaries, many of which are controlled by the banks themselves (Table 19). Sizable increases were also recorded for loans to holding companies, which centralize industrial groups' liabilities and in some instances are involved in corporate reorganization. The largest increases in loans to non-financial companies relate to branches of industry where small production units are most common.

Table 19

Loans outstanding to companies and households (1)

	Banks			Special credit institutions		
	Stocks at July 1990 (2)	Percentage changes in the 12 months to: July 1990	Percentage changes in the 12 months to: Dec. 1989	Stocks at July 1990 (2)	Percentage changes in the 12 months to: July 1990	Percentage changes in the 12 months to: Dec. 1989
Insurance companies	160	20.3	139.7	100	75.4	103.8
Financial companies	63,709	26.7	33.4	42,751	18.1	21.5
of which: holding	*14,370*	*24.5*	*40.9*	*7,457*	*20.9*	*4.1*
leasing	*12,670*	*32.6*	*29.5*	*12,160*	*16.1*	*16.4*
factoring	*11,578*	*27.8*	*34.6*	*3,036*	*53.0*	*32.0*
consumer credit	*4,129*	*23.9*	*39.9*	*3,619*	*34.3*	*47.2*
Non-financial companies	258,204	16.0	22.3	135,200	18.0	17.6
Branches of industry with average loans per borrower:						
up to 1 billion lire	*115,431*	*22.8*	*23.9*	*46,999*	*15.0*	*14.6*
from 1 to 2 billion lire	*89,248*	*14.1*	*20.3*	*37,216*	*12.7*	*11.2*
more than 2 billion lire	*53,525*	*6.4*	*22.4*	*50,985*	*25.5*	*26.2*
Households	88,300	17.2	18.1	26,510	25.2	27.9
of which: consumers	*17,889*	*24.5*	*24.9*	*10,493*	*37.8*	*44.5*

Source: Central Credit Register.
(1) Not including debtor positions smaller than 80 million lire. – (2) In billions of lire.

In the twelve months to September the growth of foreign currency lending net of exchange rate adjustments was 15 per cent, as against 21 per cent in 1989. The slowdown was most pronounced in lending by the eight largest banks, which together account for around half the volume of all foreign currency loans.

The deceleration in lending by the Italian branches of banks was only partly offset by loans granted to residents by the foreign branches of Italian banks, which are not included in the aggregates for which annual forecasts are made. This year foreign branches have concentrated mainly on expanding their lira lending, raising the necessary funds on the interbank Eurolira market (see insert: "Lending by Italian bank branches abroad").

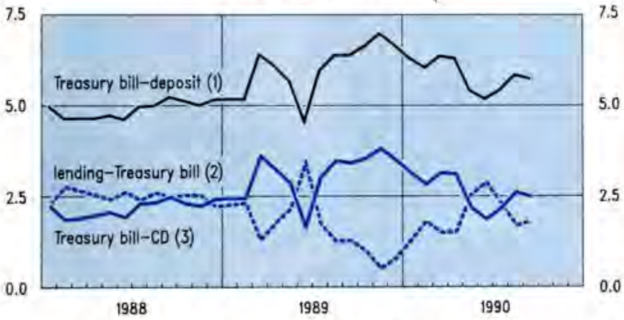
Last year's more intense competition among banks in the credit market has continued this year. Market shares have continued to shift considerably, the gains being recorded primarily by large parent banks, especially those with a relatively strong capital base. The dispersion of lending rates among the various institutions has remained as narrow as in 1989.

At the beginning of the year the banks raised their lending rates by an average of 0.3 points; those on loans to large firms, where competition is very fierce, rose by less than the average. Besides the uncertainties noted above about the movement of rates abroad, the increase may have been prompted partly by the contraction in secondary liquidity held in the form of securities. In subsequent months interest rates adjusted to the reduction in the discount rate, falling by 0.7 points on average up to September and by a larger percentage for loans at the lower end of the interest rate spectrum.

Certificates of deposit have again been the most dynamic component on the liabilities side; as in 1989 as a whole they accounted for nearly two thirds of net new deposits in the twelve months to September. Over the same period they increased from 14 to 18 per cent of the total stock of deposits. The banks encouraged sales of CDs by offering higher yields than on other types of deposit; for example, the after-tax yield on 6-month CDs is now 3.3 points higher than that on traditional deposits, compared with an average differential of 2.9 points in 1989 (Figure 16). CDs with a maturity of more than 18 months, which were first issued towards the close of 1987 and which bear withholding tax at 12.5 per cent instead of the 25 per cent rate applied to other CDs, are becoming increasingly important and now account for 36 per cent of the total, against about 31 per cent a year ago.

Figure 15

Interest rate differentials



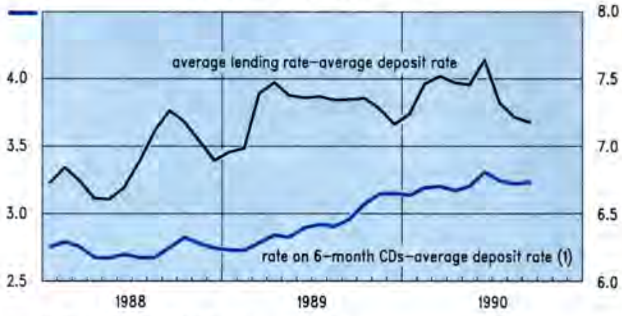
(1) Rate on 6-month bills less average rate on savings and current account deposits, net of withholding tax. – (2) Average bank lending rate less yield on 6-month bills. – (3) Rate on 6-month bills less rate on 6-month CDs, net of withholding tax.

Major innovations have been introduced in the management of bank liquidity, thanks to the start of trading on the new screen-based interbank deposit market at the end of February. Average daily turnover is already considerable, particularly for maturities of a few days (see insert: "The screen-based interbank deposit market"). Further changes in banks' treasury management will be brought about by the mobilization of compulsory reserves, which was launched in mid-October (see insert: "The mobilization of compulsory reserves").

The special credit institutions' operations reflect the behaviour of credit demand. Lending by industrial credit institutions increased by 18.2 per cent in the first nine months of the year, around one point less than in 1989. The growth in short-term loans exceeded the average, although it showed signs of slowing down during the third quarter. Mortgage loans expanded by 18 per cent, with a larger share denominated in foreign currencies. As with bank loans, financial companies and households were major borrowers of special credit.

Figure 16

Bank rate differentials



(1) Rates net of withholding tax.

The special credit institutions further stepped up their foreign currency operations. In the first eight months of the year their foreign currency liabilities increased by about 12 trillion lire adjusted for exchange rate changes (as against 10.5 trillion in the same period of 1989) and accounted for roughly half of the growth in these institutions' borrowing. Industrial credit institutions used part of the funds raised in foreign currencies to finance domestic disbursements in lire; it has now become established practice to conclude currency swaps to cover the portion of exchange risks not borne by borrowers.

In the first eight months of the year the tendency for the average life of special credit institutions' liabilities to shorten was confirmed by the smallness of the increase in their bond issues, most of which are index-linked. On the other hand, the share of liabilities in the form of CDs, which have a maturity of more than 18 months rose to nearly 22 per cent, compared with 16 per cent only three years ago.

The financial market

Gross issues of government securities rose from 442.3 trillion lire in the first three quarters of 1989 to 546.7 trillion in the same period of this year; in

Lending by Italian bank branches abroad

The exchange control liberalization carried out over the last few years has created conditions favourable to the development of domestic demand for banking services supplied from abroad. The impending completion of a single European credit market, moreover, has led Italian banks to expand their foreign networks. In this context the persistence of regulatory disparities and functional differences between the domestic and the external market prompts both banks and their more sophisticated customers actively to seek out the best possible terms.

In this respect, the foreign branches of Italian banks enjoy some advantages over other foreign banks, including certain fiscal advantages.

Foreign currency lending to Italian residents by bank branches abroad expanded strongly after the reintroduction of the compulsory reserve requirement against banks' net fund-raising in foreign exchange in February 1989, which followed the measures liberalizing borrowing in foreign currency and borrowing abroad by domestic operators. Between February and July 1989 outstanding foreign currency loans in Italy by the foreign branches, which initially stood at 7.85 trillion lire, grew by nearly two thirds, increasing their share of overall foreign currency lending by the Italian banking system from 13.7 to 19.3 per cent (see Table). After remaining essentially stable for a time, in March 1990 foreign currency lending to residents by foreign branches resumed vigorous growth and by September the total outstanding amounted to 17.85 trillion lire. The foreign branches' share of total foreign currency lending to residents reached 22.4 per cent.

Lending in Italy by the foreign branches of Italian banks

	Loans outstanding (in billions of lire)		Share in total bank lending		Share in total lending of the 15 banks with foreign branches	
	Total lending	Lira lending	Total lending	Lira lending	Total lending	Lira lending
1989 – Feb.	9,437	1,572	2.5	0.5	5.4	1.1
July	17,793	4,920	4.3	1.4	9.0	3.2
Sept.	18,650	5,275	4.6	1.6	9.6	3.6
1990 – Feb.	18,570	4,885	4.1	1.3	8.8	2.9
July	28,552	11,352	5.8	2.8	12.1	6.2
Sept.	36,204	18,368	7.6	4.6	15.5	10.1

particular, sales of medium and long-term securities doubled to 130.7 trillion (Table 20).

Net issues amounted to 72.3 trillion lire, 3.5 trillion less than in the corresponding period of 1989. The share of short-term paper fell from 40 to 35 per cent, a low figure in comparison with recent years. The proportion of floating rate securities among medium and long-term issues returned to a high level, whereas there were net redemptions of Treasury bonds. The lengthening of the term of new issues served only to halt the shortening of the average life of the public debt, which stands at around two years and five months. Uniform price auctions, the method already used for Treasury bonds and option certificates, were adopted for lira Treasury certificates in July and ecu-denominated certificates in September. In the case of lira certificates this reduced speculative oversubscription such as occurred in April and May as a result of expectations that allocations would be scaled down.

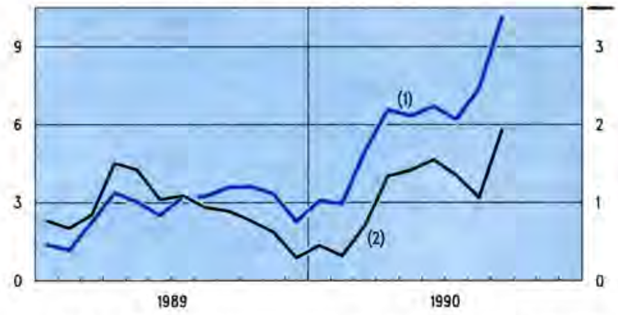
Activity on the screen-based secondary market for government securities was brisk, partly because

The rise in lira lending to Italian residents by foreign branches has been sharper still. As it started from an initially low level, however, such lending has only in recent months come to have importance for analytical purposes. Between February and September the amount outstanding increased more than threefold to over 18.35 trillion lire. Its share of total lira lending by the Italian banking system to the domestic economy rose from 1.3 to 4.6 per cent.

The development of this form of lending is all the more striking when it is recalled that it is the preserve of just fifteen banks. For these banks in isolation, in the twelve months up to September the proportion of new foreign currency and lira lending in Italy accounted for by foreign branches was 62.4 and 39.3 per cent, respectively; with respect to their total loans of this kind, these proportions are now about 34 and 10 per cent. The redistribution of lending between the domestic banking system and its branches abroad thus tends to result in a reallocation of business towards the larger banks, which have foreign branches.

The bulk of inward lira lending by branches abroad is financed on the lira segment of the Euromarket for interbank funds. The growth of this lending tends to speed up at times when the differential between interest rates on domestic lira loans and Eurolira interbank rates widens. For the fifteen banks, in fact, one finds a close correlation between the share of domestic lira lending provided by foreign branches and the differential between the minimum lending rates to customers and the three-month Eurolira interbank rate (see Figure).

Lending in Italy by foreign branches of Italian banks and the differential between domestic and international interest rates



(1) Lira lending by foreign branches to Italian residents as a percentage of total lira lending in Italy. The data refer to the lending of the 15 Italian banks that have branches abroad. – (2) Differential in percentage points between the banks' minimum lending rate to resident customers and the spot interbank rate on 3-month Eurolira funds.

Customer deposits in lire at the foreign branches have expanded rapidly in recent months, thanks in part to foreign exchange liberalization and the proliferation of lira-denominated certificates of deposit issued by the banks' London units. By September the total of such CDs outstanding had risen to more than 1.5 trillion lire.

more securities were listed and the trading day was lengthened by an hour. Average daily turnover went up from 0.78 trillion lire in the first quarter to 1.65 trillion in the second and reached a peak of 2.5 trillion in September. The slope of the yield curve, which had remained basically unchanged during the middle months of the year, steepened considerably in August owing to the spread of inflationary expectations and growing uncertainty about market developments (Figure 17). The spread between the best bid and offer prices set by primary dealers, which had remained narrow on average during the first seven months of the year, widened appreciably. In August and September the sharpest price drop was for Treasury bonds, almost matched by that for Treasury credit certificates; the prices of option certificates fell less markedly as the increased volatility of interest rates caused the certificates' option rights to appreciate.

Purchases of government paper by both households and firms have been massive and have largely offset disposals by banks, whose holdings fell by around 31.2 trillion lire in the first nine months of the year, compared with 29.1 trillion in the same period of 1989. The increase in the banks' disinvestment was in part an adjustment for the abnormal growth in their portfolios during the strikes in the banking sector towards the end of last year; the reduction in their holdings was nonetheless very large, given that they bought 4.6 trillion lire worth of securities in consolidation of previous loans to public entities. By contrast, net purchases were made by other intermediaries, including special credit institutions, investment funds and portfolio management services and companies.

Table 20

Government securities
(billions of lire)

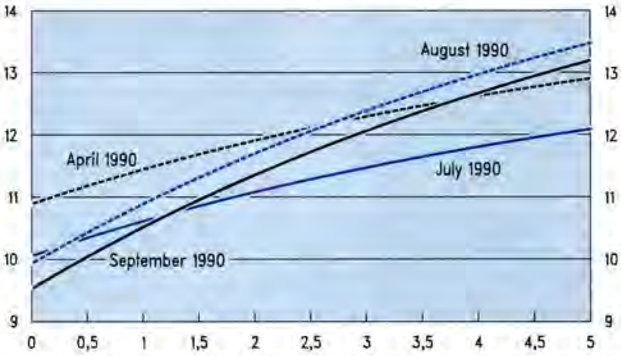
	Bills (1)	Ecu bills	Credit certifi-cates	Bonds	Ecu credit certifi-cates	Total
			Gross issues			
1987	316,110	2,311	55,480	19,020	2,231	405,757
1988	409,411	7,289	27,350	75,383	11,167	531,891
1989	498,553	11,313	21,300	41,100	9,025	597,546
1989 9 months .	369,301	8,702	14,300	34,129	6,018	442,291
1990 9 months (2)	412,949	3,016	52,038	56,294	5,694	546,653
			Net issues			
1987	25,171	2,311	35,267	13,538	2,231	85,193
1988	36,275	5,738	–7,848	59,781	11,167	104,650
1989	39,778	3,264	20,916	27,006	7,434	110,766
1989 9 months .	28,639	1,423	14,074	20,227	5,367	75,842
1990 9 months (2)	29,643	–4,252	42,580	–13,009	5,694	72,336

(1) Net issues are inclusive of issue discounts. – (2) Net of securities issued to make good the deficits of public health units and transport companies.

Investment funds purchased mainly Treasury credit certificates and reduced their holdings both of other long-term securities and of Italian and foreign shares (Table 21). Their portfolios were worth 42.8 trillion lire in September, around 3 trillion less than at the end of last year. Net redemptions of units amounting to about 1.6 trillion lire in the first five months of this year were almost fully made good between June and September. The turnaround may be attributed in part to the success of funds coupled to bank current accounts, some of which have been launched this year. These funds' share of the net assets of all investment funds has doubled since the end of 1989, although it is still modest at around 7 per cent.

Figure 17

Time/yield curves (1)
(Treasury bonds)



(1) Yields on zero-coupon bonds (y-axis), based on stock exchange and screen-based market quotations 30 April-28 September, plotted against their maturity in years (x-axis).

Banks and portfolio management companies increased the government securities in client portfolios by 4 trillion lire, bringing the value of total managed assets to 59.5 trillion lire in June. Unlike the investment funds, this sector is expanding rapidly, resources growing by 2.6 trillion in the first half of the year.

Encouraged by rising share prices in the first half of the year, gross share issues by listed and unlisted companies in the first nine months were massive, rising to 13.9 trillion lire (5.1 trillion of which were issued by listed holding companies), as against 10.3 trillion in the same period of 1989.

There was increased dealing in Italian shares on the London Stock Exchange, where issues of 14 companies listed on the Milan Stock Exchange are traded. The average volume of trading in these shares in London in relation to that traded in Milan rose from 19 per cent last year to 38 per cent. The growth in transactions in Italian securities in London was

The screen-based interbank deposit market

The screen-based market for interbank deposits, in operation since 26 February, handles dealing in all the main categories of interbank deposit except sight deposits.[1] The system is noteworthy not only for its automated trading procedures, but also for the introduction, on a voluntary basis, of clear and binding rules of conduct for all participants[2] with a view to enhancing the efficiency and transparency of transactions. The main rules are: 1) all trading in interbank deposits between participants is carried out on the screen-based market; 2) participants are pledged to make trades at the prices they quote; 3) trades are settled exclusively through the clearing house or by entries to centralized accounts with the Bank of Italy; 4) the system is managed and the rules enforced by its governing bodies – the Management Committee and the Assembly of Participants. In addition, the system has considerably improved the supply of information to the market with the volume of transactions by categories of deposit and the interest rates fixed in trades being updated every fifteen minutes.

Trading on the screen-based market has expanded rapidly, with average daily turnover and the average stock of deposits rising to 6.5 and 17 trillion lire respectively in September (see Figure). The number of participants has risen from the initial 188 to 234 and the system now accounts for almost the entire volume of interbank transactions in fixed-term deposits, the only ones in which it is at present dealing.

Operations on the screen-based interbank deposit market (1)
(billions of lire)

Source: Based on Interbank Automation data.
(1) Calculated by the method described in note 1 to the Table. – (2) Average daily data.

The screen-based market was introduced at a time when the importance of fixed-term deposits was already growing as a result of the adoption of sophisticated cash management techniques and the development of new types of deposit. The new system gave this process further impetus, so that by the end of June interbank fixed-term deposits amounted to around 17.6 trillion, compared with sight deposits of 18.4 trillion and correspondent account deposits of about 22 trillion. The intensity of the transformation is clearly revealed by considering the changes that have occurred since 1989, when correspondent account deposits were still twice as large as fixed-term deposits[3] and sight deposits exceeded the latter by 70 per cent. The mobilization of compulsory reserves should encourage the development of interbank fixed-term deposits and thus reinforce the present trends.

Relative importance of deposits traded on the screen-based market
(percentages)

	Flows		Stocks (1)	
	June	September	June	September
Overnight	59.8	66.8	29.7	28.2
Tom.-next	19.3	13.5	9.5	5.7
Spot-next	5.6	5.3	3.0	2.0
1-week ..	2.4	3.1	6.5	6.1
2-week ..	1.5	1.7	7.7	8.6
1-month .	1.3	2.6	11.4	19.2
3-month .	0.4	0.8	9.3	17.7
Other (2) .	9.7	6.2	22.9	12.5

Source: Based on Interbank Automation data.
(1) Stocks calculated on the basis of daily flows by category of deposit, adding new operations and subtracting those matured. The June figures for stocks referred to a provisional situation, since the market began operating at the end of February and six-month deposits are among those traded. – (2) Stocks calculated net of time-deferred deposits for which it is not possible to ascertain initial settlement dates.

The statistics on the composition of the interbank fixed-term deposits traded on the screen-based market are useful for gauging the significance of the different interbank rates. The relative importance of the various kinds of deposit obviously differs depending on whether flows or average daily stocks are considered; for a given level of stocks, shorter-term deposits, and especially 24-hour deposits, account for a much larger proportion of daily turnover. Though revealing in other respects, an examination limited to flows would thus overestimate the relative importance of shorter-term deposits. The Table shows overnight deposits generating by far the largest share of total flows in June and September, while in terms of stocks the distribution is much more balanced, with sizable shares accounted for by one and three-month deposits.

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(1) The categories listed are: overnight (24-hour deposits, same-day settlement); tomorrow-next (24-hours, next-day settlement); spot-next (24 hours, settlement at two days); time (one or two weeks and one, three or six months, settlement at two days); time-deferred (same maturities as "time", settlement date deferred); time-day (maturity up to 15 days, same-day settlement). All the above deposits are of fixed duration and are therefore classified as interbank fixed-term deposits. The screen-based market also lists call deposits (callable at two business days notice, settlement at two days), which are similar to sight deposits but rarely traded.

(2) Banks, central credit institutions and special credit institutions are eligible. To participate, they must subscribe to the agreement.

(3) Changes in the payment system have also contributed to the reduction in the share of correspondent accounts by increasing the proportion of payments settled in monetary base.

The mobilization of compulsory reserves

The changes in the system of compulsory reserves approved by the Interministerial Committee for Credit and Savings in January 1989 came into effect on 15 October.

Under the new regulations, banks may mobilize a percentage of their compulsory reserves, provided that the average level for the period from the 15th of each month to the 14th of the next does not fall below the reserve requirement. In addition, a bank's reserves may at no time be less than the reserve requirement minus the percentage that can be mobilized. Initially, this has been fixed at 3 per cent of the requirement, which corresponds to a total of about 3.6 trillion lire on the basis of the compulsory reserves existing in October. At the end of the transitional period, which will last for one year at the most, banks will be able to mobilize up to 5 per cent of their compulsory reserves.

The aggregates referred to in calculating a bank's reserve requirement will no longer be those recorded at the end of each calendar month, but the averages for the reference period. The interest payable on reserves will also be calculated on the average amount deposited by applying the rates currently in force: 5.5 per cent for reserves in respect of all underlying bank deposits apart from certificates of deposit, for which the rate is 8.5 per cent. Amounts in excess of a bank's average reserve requirement will be remunerated at the rate applied to free reserves (0.5 per cent).

In the event of a bank failing to meet its reserve requirement, interest will be charged on the amount of the shortfall at the base rate for fixed-term advances increased by 5 percentage points. The Bank of Italy is also empowered to suspend a bank's right to mobilize its reserves if it repeatedly fails to meet its reserve requirement.

The new regulations apply to all banks except for second-class pledge banks and rural and artisans' banks. Consequently, savings banks, which were previously allowed to deposit their compulsory reserves through the Central Institute for Italian Savings Banks (ICCRI), will now deposit them in individual lira accounts in the same way as other banks. The new regulations also extend the reserve requirement to the various central credit institutions.

The changes in the regulations have been accompanied by a new procedure for managing banks' lira accounts with the Bank of Italy. The reserve account and that for eventual ordinary advances will be managed as a single account, with deposits automatically being used first to reduce the amount of any outstanding ordinary advances and the balance, if any, being credited to the reserve account; the order is reversed for withdrawals. However, if banks wish, they may distribute their balances between the two accounts at their discretion, in accordance with their planned cash management operations.

In conformity with the changes under way in the payment system, much greater use will be made of the interbank network in place of paper-based instruments. At the same time the range of operations that can be carried out directly has been broadened and banks will receive more daily information regarding their reserves.

The introduction of the mobilization scheme also made it necessary to reorganize the system of value dating used for banks' lira accounts. All operations will now be considered "value same date" for the purpose of calculating interest. In addition, a new schedule of transaction charges has been prepared which takes account of the cost of the services provided by the Bank of Italy and the need to ensure the regular functioning of the payment system. In addition to the fixed charges levied on all operations, the new schedule includes ad valorem charges for cash transactions and for those operations in favour of banks which would otherwise be unable to meet their settlement obligations in the last phase of the national clearing of interbank orders.

The funds that can be mobilized and the new operating procedures will deepen the interbank market and permit a better distribution of reserves, especially by means of the daily trading on the screen-based market for interbank deposits, thereby helping to reduce the volatility of short-term interest rates. This will enhance the information content of interest rates and their usefulness as indicators of monetary conditions. The Bank of Italy will be able to focus its intervention more on influencing the underlying state of the market and to pay less attention to smoothing day-to-day fluctuations in liquidity.

Table 21

Portfolios and net fund-raising of Italian investment funds
(billions of lire)

	Italian securities			Foreign securities		Other financial assets	Total portfolio	Net fund-raising
	Government	Bonds	Shares	Total	of which: shares			
1988 - Dec.	22,292	4,672	13,958	7,922	3,485	638	49,482	−12,959 (1)
1989 - Dec.	18,630	4,394	14,879	6,872	4,958	1,053	45,828	−6,663 (1)
1990 - Jan.	17,820	4,374	14,339	6,570	5,011	1,121	44,224	−684
Feb. ...	17,179	4,295	13,516	5,898	4,556	1,180	42,068	−385
Mar.	16,919	4,417	13,898	5,541	4,328	1,296	42,071	−250
Apr.	19,293	4,320	14,472	5,006	4,065	1,267	44,358	−123
May	20,070	4,379	15,621	5,536	4,592	1,171	46,777	−127
June ...	21,043	4,355	15,709	5,566	4,473	1,155	47,828	189
July	22,083	4,313	15,090	5,655	4,536	1,160	48,301	652
Aug.	20,826	4,138	13,226	5,096	4,017	1,124	44,410	407
Sept. (2)	21,189	3,996	11,701	4,904	3,426	1,051	42,841	175

(1) Net flow in the year. – (2) Provisional.

Figure 18

Securities market: indices of capitalization
(31 December 1986 = 100; end-of-week figures)

accompanied by a contraction in the volume of the same securities changing hands on the Milan exchange; for some of the shares, the monthly turnover was sometimes higher in London than in Milan.

The Milan Stock Exchange share price index peaked in mid-June at 11.2 per cent above its end-1989 level, fluctuated in July and then fell sharply in reaction to the Gulf crisis. By the end of September it was showing a fall of 23.3 per cent; it slipped further in October, ending the account 24.4 per cent lower than at the end of 1989 (Figure 18). The Consob took a number of temporary measures to reduce market turbulence: it prohibited short selling in order to curb the speculative element in disposals, a measure that was revoked at the beginning of October, and it lowered the margin on contango operations from 50 to 40 per cent so as to lessen the risk of a liquidity crisis caused by the replenishment of margins eroded by the fall in share prices.

Short-term prospects

The international economy

The outlook for the world economy has been made highly uncertain by the Gulf crisis, which has come on top of a cyclical weakening of economic activity. Before the crisis it was being predicted that the slowdown that had begun in the industrialized countries in 1989 would continue in 1990. Growth had nevertheless been expected to pick up again during 1991, thus further prolonging the expansion that began in 1983. Inflation had been expected to stabilize in 1990 and to begin to fall again during 1991, thanks partly to the economic policies adopted in response to the pressures that had emerged in 1988.

A more marked deceleration in growth and higher inflation now seem probable. The reduction in spending power in energy-importing countries has not been accompanied, in the short term at least, by a corresponding increase in these countries' exports to oil producers. Higher interest rates and growing uncertainty are causing businesses to scale down their plans to expand production.

Oil prices, which had already risen in July when the OPEC reference price was raised from \$18 to \$21 a barrel, went above \$25 in August; they reached a peak of \$40 at the beginning of October and then fluctuated in response to rumours about the conflict in the Gulf.

So far, the price of oil has risen less than in the two previous oil crises. The reduction in supply as a result of the embargo on Iraqi and Kuwaiti output has been partly offset by an increase in production by other countries decided at the emergency meeting of OPEC on 29 August. Should the crisis be resolved, it cannot be ruled out that the price of oil would fall back to a level similar to the reference price set at the end of July.

Uncertainty about the outcome of the crisis is the main factor adversely affecting the financial markets. Share prices have fluctuated widely and the underlying trend has been downward since as early as mid-July. Between then and 26 October all the main share markets registered falls, ranging from almost 15 per cent in the United Kingdom to more than 20 per cent in Germany, Italy and Japan. In the bond markets the increase in interest rates has been more pronounced on long-term paper (Table 22). The slope of the yield curve has therefore steepened.

Table 22

Short (1) and long-term (2) interest rates in the leading industrial countries
(secondary market yields in the last week of the reference period)

	1989	1990			
	Dec.	July	Aug.	Sept.	Second week in October
United States					
– short	7.68	7.53	7.48	7.29	7.16
– long	7.88	8.48	8.88	8.96	8.87
Japan					
– short	6.84	7.60	8.12	8.38	7.95
– long (3) ...	5.87	7.48	8.19	8.62	n.a.
Germany					
– short	8.01	8.13	8.30	8.45	8.54
– long	7.55	8.59	8.94	9.11	9.13
France					
– short	11.25	9.89	10.27	10.31	9.96
– long	9.34	9.58	10.16	10.64	10.45
Italy					
– short (4) ..	13.37	11.56	11.70	10.33	11.70
– long	14.06	13.10	14.20	13.84	14.04
United Kingdom					
– short	15.09	14.94	14.94	14.93	13.68
– long	9.97	11.13	11.59	11.62	11.27

Sources: BIS, IMF and national sources; for Italy, Bank of Italy.
(1) United States: 3-month Treasury bills; Japan: 2-month commercial bills; Germany, France, United Kingdom: 3-month interbank rate; Italy: gross issue yield on 3-month Treasury bills (last issue in reference period). – (2) Gross yields. United States: 10-year Treasury notes and bonds; Japan: 10-year government bonds; Germany: public sector bonds with maturities of more than 4 years; France: long-term government bonds; United Kingdom: 20-year government stocks; Italy: 4-year Treasury bonds issued at the beginning of the period after the reference period. – (3) Average monthly figures. – (4) The October figure relates to the end-month auction.

The immediate response of monetary policy was to maintain the restrictive stance already being pursued. In August and September short-term interest rates rose from an already high level almost everywhere, but they fell back slightly in October. The largest increase has occurred in Japan, where official interest rates were raised by one percentage point. In the United States, where signs of a slowdown in economic activity are more obvious, rates on 3-month Treasury bills have fallen by 40 basis points. In the United Kingdom the decline in interest rates in October occurred at the same time as the pound sterling adhered to the exchange rate mechanism of the EMS.

Between the end of July and 26 October the dollar depreciated by about 5 per cent against the Deutschemark and by around 15 per cent against the yen. The cyclical slowdown in the United States, and the consequent expectations of a fall in US interest rates, contrasted with continued satisfactory growth in Germany and Japan. In the United States short-term interest rates are now around one percentage point lower than in Japan and Germany, while in August inflation was running at almost twice the rate of just under 3 per cent recorded in these two countries. The depreciation of the dollar did not cause tensions between the main currencies in the EMS, and it facilitated the lira's gradual decline towards the centre of the band.

Table 23

Forecasts of the main international macroeconomic variables (1)

(percentage changes on previous year)

	1989	1990	1991		1989	1990	1991
GDP (2)				**Current balances** (5)			
Industrial countries	3.4	2.6	2.4	Industrial countries	–82.4	–95.8	–100.8
of which:				*of which:*			
United States	2.5	1.3	1.7	United States	–110.0	–97.0	–99.7
Japan	4.9	5.1	3.7	Japan	57.2	47.5	55.8
EEC (3)	3.4	2.8	2.6	Germany	55.5	48.9	38.4
Germany	4.0	3.9	3.3				
LDCs	3.0	2.2	4.2	LDCs	–15.9	–4.8	–10.9
Heavily-indebted LDCs	1.6	–0.7	3.3	Heavily-indebted LDCs	–17.9	–19.6	–22.1
Consumer prices (4)				**Unemployment rate** (6)			
Industrial countries	4.4	4.8	4.3	Industrial countries	6.4	6.2	6.3
of which:				*of which:*			
United States	4.8	5.1	4.5	United States	5.3	5.4	5.5
Japan	2.2	2.8	2.3	Japan	2.3	2.1	2.2
EEC (3)	4.3	5.3	4.7	EEC (3)	8.1	8.0	8.1
Germany	2.8	2.8	3.7	Germany	6.8	6.2	6.0
Product deflator				**World trade** (2)			
Industrial countries	3.9	3.9	4.0	**Exports** (2)			
of which:				Industrial countries	7.0	6.3	5.2
United States	4.0	4.3	4.2	LDCs	6.7	5.0	5.3
Japan	1.5	1.5	2.1				
EEC (3)	4.4	5.3	4.7	**Imports** (2)			
Germany	2.4	2.9	3.6	Industrial countries	8.1	5.5	4.5
				LDCs	8.6	4.1	6.3

Source: IMF.

(1) Based on an assumed oil price of $26 a barrel in the fourth quarter of 1990, declining gradually to $21 at the end of 1991. – (2) At constant prices. – (3) Average for the four leading countries. – (4) Private consumption deflator. – (5) Billions of dollars. – (6) Level.

The consequences of the increase in oil prices for the Italian economy

The estimates made so far in Italy as to the consequences of an increase in the price of oil to around $25 a barrel all indicate that the macroeconomic effects are likely to be modest. The impact is expected to be much less than in the two crises in the seventies, even if oil prices stabilize at the higher levels reached in recent weeks; however, these levels seem unlikely to persist, unless dramatic developments occur in the Gulf crisis.

The differences between the present situation and the oil shocks of the seventies can be attributed to the smaller increase in oil prices in dollar terms, the weakness of the US currency and Italy's reduced dependence on imported energy.

Table 1

Average unit value of Italy's energy imports

	1974	1981	1991 (1) 1989=100	
	1972=100	1978=100	(a)	(b)
Valued in:				
Dollars	361	249	141	198
Lire	403	333	118	165
Deutschemark	293	280	115	161

Source: Istat.
(1) Hypothesis (a): $25 a barrel. Hypothesis (b): $35 a barrel.
Exchange rates are held constant at the average for the first half of October.

The price of Italy's crude oil imports averaged $17.70 a barrel in 1989 and $17.90 between January and July of this year. The increase in relation to 1989 would therefore be 41 per cent if the price fell back to $25 a barrel (hypothesis (a) in Table 1) and 98 per cent if it stabilized at around $35 (hypothesis (b)). If the same increases applied in full to the prices of all energy sources, the average unit value of Italy's energy imports in dollars would rise much less than in the two previous oil crises; the increase amounted to 261 per cent in the 1973-74 crisis and 149 per cent in the one of 1979-80.

In lire, the increases are smaller owing to the depreciation of the dollar since 1989. If the dollar exchange rate is held constant at the average recorded in the first half of October (1,149 lire), the increase in the lira price of imported energy between 1989 and 1991 would be only 18 per cent in hypothesis (a) and 65 per cent in hypothesis (b). Following the second oil crisis, the appreciation of the dollar against the other major currencies took the increase in the price of imported oil between 1978 and 1981 to 233 per cent in terms of lire and to 180 per cent in Deutschemark.

As regards Italy's dependence on imported energy, Table 2 shows that the ratio between net energy imports and gross domestic product (both at current prices) was 3.4 per cent on the eve of the 1979 crisis but declined steadily from 1982 onwards to reach 1.7 per cent in 1989, very close to the figure for 1972, when the price of oil had been less than $3 a barrel.

The ratio between net imports and GDP in value terms can usefully be broken down into the two components of quantity and price. This reveals Italy's considerable energy savings, which made it possible to reduce the quantity ratio by 35 per cent between 1972 and 1989. Over the same period the relative price of energy imports increased by 62 per cent in relation to the GDP deflator. Even in hypothesis (b) the relative price defined in this way remains significantly below the figure recorded before the second oil shock, when the nominal price of crude was less than $14 a barrel.

In hypothesis (b) the ratio between net energy imports and GDP in value terms would rise from 1.7 per cent in 1989 to 2.5 per cent in 1991; by contrast, it reached 4.5 per cent in 1974 and 6.6 per cent in 1981. As a first approximation, therefore, the oil tax associated with an increase in the price of crude to $35 a barrel is equal to 0.8 per cent of GDP (2.5 minus 1.7 per cent), compared with around 3 per cent in the oil crises of the seventies.

To take account of the complex interaction between economic variables, an econometric exercise has been carried out to estimate, by way of example, the consequences of an increase in the price of crude oil from $25 to $35 a barrel in 1991. The exercise is broadly symmetrical, so that it is also possible to gauge, again as a first approximation, the effect of changes in the opposite direction that are likely to occur when the Gulf crisis is resolved.

The exercise underlines the vulnerability of the Italian economy from the points of view of the balance of payments, inflation and growth.

Comparing the two scenarios, the $10 increment in the oil price results in a deterioration of 10 trillion lire in the balance of payments on current account, an increase of 0.6 percentage points in prices and a reduction of half a point in the rate of growth of gross domestic product.

The deterioration in the current account is roughly equal to the increase in the value of net energy imports; although sizable in themselves, other changes due to the rise in oil prices – such as the increase in the cost of other imports, the rise in Italian export prices and the contraction in both foreign and domestic demand – therefore have virtually no net effect over the year.

Since final energy consumption accounts for about 1.5 per cent of aggregate demand (domestic demand plus exports), the increase in prices warranted by the rise in energy costs can be put at 0.6 percentage points, assuming unchanged levels of wages and profits. This estimate is confirmed by the econometric exercise, which also takes account of the rise in other international prices and the lag with which cost increases are transferred to final prices.

Finally, the slowdown in the rate of growth depends essentially on two factors relating to the level of world demand and its geographic distribution. First, oil-producing countries are not able, over the short term at least, to compensate for the decline in consuming countries' levels of expenditure caused by the oil tax; secondly, only part of the increased demand from producer countries would be redirected towards oil-consuming countries.

In the exercise, the oil tax manifests itself initially in a reduction of 0.6 per cent in households' disposable incomes, in other words by the amount of the increase in consumer prices warranted by the deterioration in the terms of trade. Consumption declines by almost the same percentage in one year, in consequence of the multiplier effects associated mainly with the contraction of exports and the scaling-down of firms' investment plans.

These estimates subsume many hypotheses regarding the effects of the rise in oil prices on both the world economy and on Italy. As to the world economy, the most important is the assumption of no change in the exchange rates of the main currencies between the two price scenarios. With regard to the Italian economy, it is assumed, among other things, that the further price increases are not offset by fiscal measures and that private and public sector wages are the same in both scenarios.

The latter hypothesis implies that the distribution of national income between profits and wages will initially shift in favour of wages, owing to the lag with which firms manage to pass on cost increases in prices, and will remain broadly unchanged in 1992; it rules out the possibility that a one-off increase in the level of prices can be translated into an acceleration in inflation; it also assumes policies of wage restraint and that even the indirect effects of changes in the price of oil transmitted via changes in firms' costs will be excluded from the scala mobile. *If, at the opposite extreme, there were a widely held conviction that the oil tax could be avoided by fully adjusting wages to the rise in the cost-of-living index, albeit with a certain lag, the additional inflation in 1991 would be of the order of 1 percentage point, rather than 0.6; it would remain at around 1 percentage point the following year, instead of disappearing. In this situation the conflict between the objective of monetary and exchange rate stability and that of maintaining growth in output and employment would rapidly become acute and potentially untenable. The increases in prices and/or the contraction in employment would in any case reduce labour's share of national income to a level close to that which would have obtained in the absence of formal or de facto wage indexation.*

Table 2

Ratio between net energy imports and gross domestic product

	1972	1974	1978	1980	1981	1989	1990 (1)	1991 (2)	
								(a)	(b)
Value	1.6	4.5	3.4	5.2	6.6	1.7	1.8	1.8	2.5
Volume (1972=100)	100	93	81	77	75	65	67	67	66
Prices (1972=100)	100	305	266	419	547	162	165	169	237
Price of crude oil (3)	2.8	11.8	13.7	31.0	36.0	17.7	22.2	25.0	35.0
Lira/dollar exchange rate	583	650	849	856	1,138	1,372	1,203	1,149	1,149

Sources: Historical data: Istat; estimates of the GDP deflator for 1990 and 1991: Forecasting and Planning Report; ratio of energy imports to GDP in volume terms: Bank of Italy calculations.
(1) Estimates. – (2) See the note to Table 1. – (3) Average unit import prices: dollars per barrel.

The increase in oil prices has prompted the main international organizations to revise their earlier forecasts, which for 1991 had been based on a crude oil price of around $18 a barrel. According to the IMF, whose findings do not differ substantially from those of the OECD, growth in the industrial countries this year will be only slightly weaker than had been forecast before the oil shock, but the difference will be more marked in 1991, the latest forecast being 2.4 per cent compared with the 2.8 per cent projected previously. Inflation is still expected to slow down, but the estimates have been revised upwards by 0.3 and 0.4 percentage points for the two years respectively. Current account balances will be worse than previously predicted, though by only a small amount overall (Table 23). This forecast is based on the assumption that average oil prices will fall from $26 a barrel in the final quarter of this year to $21 a year later.

Oil prices could differ substantially from these levels, however, depending on the turn of events in the Gulf crisis. The international organizations' forecasts of growth and inflation may have to be revised, possibly by a large margin. On the basis of data derived from a simulation carried out by the IMF, it has been estimated that an increase or decrease of $10 in the price of oil from the level recorded at the end of August would induce a change of just over half a percentage point in the same direction in the consumer price indexes of the leading industrialized countries in 1991 and affect the rate of growth of real GDP by just under half a point in the opposite direction. However, this exercise captures only part of the effect of changes in the climate of business confidence.

The effects of the Gulf crisis on developing countries will differ considerably. Growth should be slightly faster in 1991 in those that are oil producers, accelerating by around 0.2 percentage points, but the majority of net oil importers will suffer a deterioration in their terms of trade that will depress their growth. These countries will also be affected by the expected slowdown in the imports of industrial countries and by higher world interest rates, which will increase their debt servicing burden. The Gulf crisis has had a particularly devastating effect on some countries in the region, particularly Jordan, Egypt and Turkey; financial assistance from the leading industrial countries is being worked out to support them.

In line with the policy adopted at the Comecon meeting in Sofia at the beginning of this year, all intra-Comecon trade will have to be settled not in roubles but in convertible currencies at world prices from 1991 onwards. The oil-importing countries within this group will therefore be entirely exposed to movements in international oil prices, to the consequent advantage of the Soviet Union's oil exports. If the price of oil stands at around $25 a barrel in 1991, the oil-importing countries of Central and Eastern Europe will face additional costs of around $9 billion, equal to almost 20 per cent of their present export receipts in convertible currencies. The benefit to the Soviet Union, on the other hand, will amount to more than $13 billion, 30 per cent of the value of its present exports in convertible currencies.

The orientation that emerged on the occasion of the annual meeting of the International Monetary Fund in Washington in September was for economic policy to be tightened to counter the inflationary pressures caused by higher oil prices. The immediate impact on consumer prices should not develop into a revival of the inflationary process, the subsequent curbing of which would entail a heavy cost in terms of growth. By keeping its stance unchanged, monetary policy is helping to stabilize market expectations. Fiscal and structural adjustment policies should be directed towards strengthening the weak points of each economy and correcting the imbalance between saving and investment at the world level.

In setting their monetary and fiscal policies for the coming year, the leading industrial countries are working on the assumption of oil prices below the current level of between $35 and $40 a barrel. Current plans, which are still provisional, provide for maintaining the present degree of monetary tightness. The public sector deficits of the seven leading countries as a group will average the equivalent of 1 per cent of gross product in 1991, the same as this year.

Budget policies still do not appear to be in a position to correct the underlying disequilibria in the world economy. In the United States, despite the budget measures totaling $40 billion that are being negotiated between the Administration and Congress, recent estimates indicate that the deficit will rise from $220 billion in 1990 to $254 billion in the 1991 fiscal year, of which about $90 billion is for the rescue of savings and loan associations. In Japan the public sector surplus is expected to increase further as a proportion of gross national product. On the other hand, the German deficit is likely to worsen, mainly on account of the costs of unification. In the rest of Europe a reduction in budget deficits is planned in some of the countries with the highest inflation, such as Greece, Portugal, Spain and Italy.

The Italian economy

In Italy too, the events in the Gulf are accentuating the forces tending to slow down economic activity and fuel inflation. Nevertheless, barring a worsening of the situation, the effects of the crisis are likely to be much less severe than those of the two previous ones, as shown in the insert. The main differences by comparison with the previous crises stem from the smaller increase in the dollar price of oil, the weakness of the US currency and the lower incidence of energy imports on national product.

The least satisfactory result of 1990 is the lack of convergence between Italy and the other main European countries as regards inflation. The year-on-year rise in consumer prices will be higher than the figure of 6 per cent recorded in 1989 and more than a point and a half above the original target. Only a small part of the difference is attributable to the effects of the oil crisis.

According to the provisional outturn contained in the Government's Forecasting and Planning Report, gross domestic product will increase by 2.9 per cent in real terms in 1990, only 0.3 percentage points less than the target indicated last year (Table 24). However, this estimate took account of an expected recovery in the latter part of the year that is not confirmed by more recent information on the industrial sector. Electricity consumption and business surveys suggest that industrial output in October may have been lower than in September. Together with the fall estimated to have occurred in September, this would confirm the deterioration in companies' demand expectations that began in the early summer and was then accentuated by events in the Gulf.

Table 24

Italian macroeconomic variables

	1989	1990 (1)	1991 (1)
Real variables	*(percentage changes)*		
GDP	3.2	2.9	2.7
Domestic demand	3.6	3.3	2.7
Real external balance (2)	0.5	–0.7	–0.1
Prices			
GDP deflator	6.3	7.4	5.4
Private consumption deflator	6.0	6.0	5.0
Terms of trade	–0.7	3.2	–0.8
Financial balances/GDP	*(percentages)*		
State sector borrowing requirement (net of settlements of past debts)	11.1	10.7	9.3
External current account balance	–1.2	–0.8	–0.9

(1) *Relazione previsionale e programmatica per il 1991.* – (2) Percentage change in the index computed as the ratio between the index numbers of the volume (or the deflators) of exports and imports in the national accounts.

The balance of payments on current account may also turn out worse than indicated in the Forecasting and Planning Report, which estimated the deficit for 1990 at the equivalent of 0.8 per cent of GDP. The recently published information on trade in services in the first half of the year and the further rises in the price of oil on top of those foreseen immediately after the start of the crisis suggest that the current account deficit could be larger than the figure of 1.2 per cent of GDP recorded in 1989. Particularly unfavourable results are expected for net receipts from tourism and interest payments on the country's net external debt. Total net external debt, which was equal to 7.8 per cent of GDP at the end of last year (or 5 per cent if gold reserves are included among foreign assets), continues to rise, reflecting current account positions that in the last decade were in surplus only in 1983 and 1986. Italy's high credit standing and its integration in the EEC facilitate the financing of the disequilibrium; nevertheless, the increased cost of debt servicing calls for the current account to be brought closer into balance.

The budget for 1991

According to official estimates, the budget proposals for 1991 should reduce the state sector borrowing requirement by around 48 trillion lire. The effect on the public sector is the same (see Table). The proposed measures are estimated to increase revenue by around 28 trillion (of which 5.6 trillion is to come from the sale of assets) and cut expenditure by about 20 trillion (of which 3.5 trillion in the form of lower interest payments as a result of the reduction in the borrowing requirement itself).

Effect of the budget on the cash flow of the public secor (*)
(billions of lire)

Increase in revenue	**28,400**
Finance Bill for 1991	**6,130**
Rerating of family allowances	700
Increase in family alloxances	-450
Bringing forward of VAT payments	5,800
Increase in stamp duty	1,500
Increase in government concession charges	80
Increase to the budget	-1,500
Decree Law no. 267 of 28.9.1990	**500**
Taxation of capital gains	500
Proposed legislation accompanying the Finance Bill	**18,650**
Revalution of company assets	4,400
Unlocking of retained profits held in tax-exempt reserves	4,000
Condonation shemes	50
Special Wage Supplementation Fund contributions	700
Sales of assets	5,600
Health service contributions	1,200
Chamber of Commerce fees	200
Increased scope for communes and provinces to levy taxes	2,500
Other measures	**3,120**
Revision of income tax reference parameters	2,500
Increase in excise	620
Decrease in expenditure	**19,600**
Finance bill for 1991	**3,050**
Direct reimbursement of loans raised by state-controlled enterprises and other measures	3,050
Other proposed legislation:	**8,050**
Health services	5,150
Trainee contracts and hiring of persons on wage supplementation	800
Restrictions on hiring staff	500
Disability criteria	500
Deferred retirement option	100
Transfers to the regions	1,000
Decree Law no. 269 of 1.10.1990	**4,000**
Cap on lending by the Deposits and Loans Fund	4,000
Recalculation of budget allocations	**1,000**
Reduction in interest payments	**3,500**
Total	**48,000**

(*) The amounts were obtained simply by reclassifying the official estimates for the state sector.

Revenue

Tax measures are planned to generate around 17 trillion lire of additional revenue and primarily concern corporate income tax and indirect taxation. Measures to reduce tax evasion are also foreseen; the most important is the revision of the reference incomes used for assessing businesses and the self-employed, which is expected to bring in an extra 2.5 trillion. In turn, an increase in excise taxes should raise an additional 0.6 trillion.

Direct taxes *– The bill on corporate taxation sets out to raise additional revenue by allowing firms to revalue certain assets and to unlock retained profits currently held in tax-exempt reserves. The revaluation provisions refer to both tangible and intangible fixed assets and majority interests in other companies acquired before 1989. Revaluations will be subject to a tax in lieu of basic and local income taxes, levied at the rate of 20 per cent for depreciable assets and 16 per cent for other assets.*

In addition, the bill provides that reserves and provisions on which tax has either not been paid or paid at a reduced rate may be utilized upon payment of a tax in lieu of those currently applicable, at rates ranging from 6 to 20 per cent depending on where the funds came from and how they are used. Restrictions are also imposed on the scope for avoiding tax by means of mergers.

Decree Law 267/1990 provides for a flat-rate tax to be levied on the capital gains realized by natural persons and non-commercial entities as a result of the disposal for a consideration of shares and comparable securities, except, most notably, for government securities, non-convertible bonds and investment fund units. Tax will be at the rate of 20 per cent, falling to 12.5 per cent for gains arising over a period of more than eighteen months. To take account of eventual losses, capital gains are to be reduced by 7 per cent before applying the tax.

The amount of local income tax that will be deductible from taxable income for the purpose of calculating basic income tax has been reduced from 100 to 75 per cent, while the tax deduction allowed for each dependent child has been increased by 24,000 lire. Limits are also set on the interest that can be deducted in respect of new mortgage loans. In addition, taxpayers will be required to indicate in their personal income tax returns the health service contributions they have paid directly. In future, they will be allowed to correct errors and omissions within one year of filing a return and provision is also made for a special procedure for the settlement of disputes regarding taxes abolished by the tax reform of 1974.

As regards the tax-levying powers of communes and provinces, a new tax on property is foreseen that will come into force on 1 July and gradually replace the existing property taxes (a centrally administered local tax on property income and a capital gains tax).

Indirect taxes – *Starting in 1991, VAT payers will be required to make a payment on account before 20 December of each year in respect of the tax payable at the beginning of the following year. Monthly payers will have to pay 65 per cent of the amount they paid in January (or of the expected liability, if less), while quarterly payers will have to pay the same proportion of the amount they paid in March. Stamp duty and government concession charges are to be raised. The yields of property-related registration taxes and the taxes on imputed property income will be increased by the rerating of property, with effect from 1 January 1992 for direct taxes and from 1 July 1991 for indirect taxes.*

Social security contributions – *Starting from 1 January 1991, sectors eligible for extraordinary wage supplementation will have to pay a contribution equal to 0.9 per cent of gross wages and salaries, of which one third will be payable by employees. At the same time the "solidarity" contribution to the National Health Service payable on annual incomes of between 40 and 100 million lire will be raised from 4 to 4.2 per cent by increasing the share paid by employees from 0.2 to 0.4 per cent. Annual pensions in excess of 18 million lire will also be subject to a 0.9 per cent contribution to the NHS. The income threshold for the NHS contributions of the self-employed will be made the same as that fixed for pensions in Law 233/1990 (14.36 million lire). Provision is also made for a reduction in social security contributions, to be financed out of the central reserves included in the budget.*

Expenditure

Wages and salaries – *The existing restrictions on hiring are extended to 1991. Central government and local authority hirings may not exceed respectively 25 and 50 per cent of the number leaving employment. Derogations are permitted in cases of absolute necessity.*

Health services – *The measures foreseen should reduce expenditure on an accruals basis by 5.75 trillion lire and increase self-financing by 0.9 trillion. On the basis of these forecasts and of the contribution of around 2.6 trillion from the regions, the allocation to the National Health Fund has been fixed at 78.75 trillion, which includes around 6 trillion to cover the cost of the new wage agreement. The amount Local Health Units owe suppliers should not rise in view of the large increase in budgetary financing compared with 1989, when it amounted to 61.24 trillion, net of about 3.5 trillion of costs related to the new wage agreement.*

Most of the measures concern the share of costs to be borne by users of the health service and the criteria for exemption. Specifically, the maximum prescription charge is to be raised from 30,000 to 40,000 lire and the 3,000 lira fixed prescription charge replaced by a charge of 1,500 lire for each pack of medicines. The maximum charge for diagnostic services is to be raised from 30,000 to 40,000 lire (from 60,000 to 80,000 if the services involve more than one specialization). The exemptions granted to persons declared to be indigent by the commune in which they reside will be revoked in 1991. Pensioners whose incomes fall below a certain level will continue to be exempted as will persons suffering from certain pathological conditions, though only for their specific treatment.

Purchases of goods and services by Local Health Units in 1991 are not to exceed the corresponding expenditure for 1989 on an accruals basis by more than 11 per cent. Penalties are foreseen for the abuse of exemptions as well as measures to reduce the demand for specialist treatment that is not strictly necessary. Starting in 1991 the number of days of hospitalization the state will pay private nursing homes will be based on a fixed schedule. Public hospitals and outpatient clinics will be required to make paybeds and facilities available for private medical practice.

These measures supplement the bill for the reform of the National Health Service, which was part of the budget for 1990, and Decree Law no. 262 of 15 September 1990, which made the regions responsible for financing a part of this year's expenditure overshoot.

Social security – *Employees will be allowed to go on working up to the age of sixty-two even if they have already matured full pension rights.*

The allowance for persons assisting the disabled will no longer be payable when the person being assisted is in an authorized nursing home or receives financial support in lieu of hospitalization. The allowances disbursed to the needy by the Ministry of the Interior will no longer be payable to persons who receive a disability pension, an annuity as a result of an accident or a war pension. New criteria are to be established for determining disability.

Labour market measures – *The number of subsidized trainee contracts that private sector employers located outside the South of Italy and having more than ten employees are allowed will be further reduced (from 75 to 50 per cent of those in place in the previous year). Persons who have been on wage supplementation for more than twenty-four months and are hired on a permanent basis by such employers will benefit from the same contributory relief as apprentices.*

Transfers – *The most important measures in this field are those requiring IRI, ENI and ENEL to be responsible for the repayment of certain loans that had previously been serviced by the state and the reduction in the funds available under Law 675 for industrial conversion projects. Lending to local authorities by the Deposits and Loans Fund and the Treasury Ministry General Directorate responsible for social security institutions will not be allowed to exceed 4.5 trillion lire in either 1990 or 1991 (compared with the 8.5 trillion cap imposed for 1989). The financing of regions' expenditure on capital account will also be reduced.*

Table 25

Financial flows
(trillions of lire)

	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)		
	trillions of lire	%	total	domes-tic (A)	trillions of lire	%	trillions of lire	%	ratio to GDP (3)	trillions of lire	%	ratio to GDP (3)	ratio to GDP (4)	trillions of lire	%	ratio to GDP (4)
1980 ...	387.7	25.1	36.3	34.0	31.4	17.3	65.4	19.0	16.9	52.1	15.8	13.4	98.8	34.7	12.8	79.1
1981 (5)	464.0	19.7	49.6	45.2	29.6	13.9	74.8	18.3	16.1	64.3	17.8	14.7	97.4	30.3	9.9	72.6
1982 (5)	545.1	17.5	71.0	69.1	31.7	13.1	100.8	20.8	18.5	89.7	19.0	15.7	98.8	61.8	18.3	73.1
1983 ...	633.4	16.2	88.2	85.2	36.1	13.2	121.3	20.6	19.1	109.9	20.4	17.3	102.6	48.9	12.3	70.6
1984 (6)	727.2	14.8	95.7	91.7	49.4	15.6	141.2	19.7	19.4	128.9	19.8	17.7	107.2	55.0	12.3	69.1
1985 ...	812.8	11.8	110.1	107.3	46.2	12.6	153.4	17.9	18.9	134.7	17.3	16.6	112.7	56.0	11.1	68.7
1986 ...	897.3	10.4	109.4	106.7	46.0	11.3	152.7	15.1	17.0	151.4	16.5	16.9	119.2	53.6	9.6	68.2
1987 ...	978.9	9.1	114.0	105.9	46.1	10.2	152.0	13.0	15.5	155.9	14.6	15.9	125.4	52.6	8.6	67.9
1988 ...	1,082.9	10.6	125.0	119.0	78.2	15.7	197.2	15.0	18.2	182.6	14.9	16.9	130.4	58.9	8.9	66.8
1989 (7)	1,188.0	9.7	132.1	122.4	107.5	18.6	229.9	15.2	19.3	195.8	13.9	16.5	135.4	80.8	9.4	67.7
1990(7)(8)	1,313.0	10.5	140.0	129.5	84.9	12.7	218.5	12.2	16.6	210.5	13.1	16.0	138.7	58.5	9.0	65.7

(1) 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 end-of-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) The rates of growth in the money supply have been corrected for the effects of strikes in the banking sector in December 1989. – (8) Provisional and partly estimated.

At the end of the year the growth in the M2 money supply will be at the upper limit of the 6-9 per cent target range. The growth in domestic lending to the non-state sector is likely to amount to just under 13 per cent, around one point higher than forecast but more than 5 points lower than in 1989 (Table 25). However, the slowdown in total credit, including loans from abroad, will be much less pronounced. If the budget deficit comes to around 140 trillion lire, as indicated in the Forecasting and Planning Report, total domestic credit expansion will be just over 12 per cent, 3 points less than last year.

The outlook for 1991 is highly uncertain owing to the impossibility of making reliable forecasts of the price of oil products. Italy's greater dependence on imported energy compared with other countries may accentuate the deterioration in the current account of the balance of payments and widen the inflationary differential.

The Forecasting and Planning Report, which was based on the assumption of an oil price of around $26 a barrel, predicts somewhat slower growth in gross domestic product and domestic demand. Both of these aggregates are expected to increase by 2.7 per cent, only a few tenths of a point less than the provisional estimates for this year. Consumer price inflation is projected to fall to an annual average of 5 per cent; since it is likely to exceed 6 per cent at the beginning of the year, this implies a slowdown to a rate of 4 per cent at the end of 1991. The balance-of-payments deficit on current account is likely to show a further small increase in relation to GDP.

The stability of the lira, by virtue of its position within the narrow fluctuation band of the EMS, presupposes a reduction in inflation to the extent indicated by the Government as an essential condition for countering the deterioration in Italian competitiveness in world markets and curbing the current account deficit.

Bringing inflation down requires an incomes policy that is strictly consistent with the Government's objectives, as foreseen in the agreement reached between the two sides of industry in January. In particular, a wage/price spiral must be avoided by modifying the mechanisms that automatically translate increases in the prices of imported goods and indirect taxes into a rise in domestic wages and salaries.

The oil crisis makes it even more urgent to adjust the budget along the lines indicated in the Economic and Financial Planning Document published in May. Progress in this direction is also necessary in order to give concrete effect to the decision to participate in the plan for Economic and Monetary Union, a decision that calls for a rigorous economic policy and rapid economic convergence with the more stable countries of the Community.

The Government's proposals are quantitatively significant. Since some of the adjustments made earlier this year have only a temporary effect, the strength of the forces pushing up expenditure and the adverse repercussions of the Gulf crisis would have considerably increased the public sector's financial needs if no corrective action had been taken. According to official estimates prepared in September, the state sector borrowing requirement would have reached 180 trillion lire in 1991, compared with the estimate of 173 trillion made in May, despite the revenue-raising measures adopted in the meanwhile.

The Finance Bill for 1991 and the accompanying legislation are aimed at achieving a state sector borrowing requirement of 132 trillion lire, broadly the same as the amount indicated in May in the Economic and Financial Planning Document. In relation to GDP, the borrowing requirement would decline from 10.7 per cent in 1990 to 9.3 per cent in 1991. In particular, the measures confirm the objective of achieving a primary budget surplus in 1991 instead of 1992 and increase the size of the surplus to 8.1 trillion lire, compared with the figure of 6.6 trillion indicated in the Economic and Financial Planning Document.

The public debt will exceed the gross domestic product, rising from the equivalent of 100 per cent at the end of 1990 to 102 per cent a year later. Four fifths of the debt consists of bonds, the average maturity of which is two and a half years. Securities worth around 430 trillion lire, of which around 100 trillion is long-term paper, will need to be replaced in 1991. Including the securities that will probably be issued to cover the 1991 borrowing requirement, gross issues to be made during the year will rise to around 520 trillion lire, not counting the replacement of Treasury bills maturing during the year.

The necessary adjustment in the state sector borrowing requirement net of interest payments amounts to 44.5 trillion lire. The measures provide for a reduction of 18 trillion lire in expenditure and an increase of 21 trillion in revenue (see insert); the corresponding figures for the public sector as a whole are 16 and 23 trillion lire respectively. Disposals of state assets are expected to raise 5.6 trillion lire, as indicated previously. The resulting reduction in the borrowing requirement would save 3.5 trillion lire in interest payments.

The corrective measures are aimed at curbing the rapid growth in the borrowing requirement on a current programmes basis; they should have no adverse impact on economic activity, partly because some of the measures will have a one-off effect and a proportion of the revenue will come from the sale of state assets.

Nevertheless, the effects of some of the measures are very difficult to predict. In particular, the revenue expected from the taxation of corporate income depends on firms taking up the concessions being offered to them for revaluing their assets and unlocking profits held in tax-exempt reserves. Uncertainty also surrounds the forecasts of the revenue expected to come from the taxation of capital gains. This measure had been considered at the beginning of the year as part of a systematic revision of the taxation of financial assets aimed at easing the burdens weighing on the Italian financial system in anticipation of the liberalization of exchange controls and financial services. The tax revision was not included in the proposals for 1991.

The corporate income tax measures mentioned above are not of a structural nature, and neither the bringing forward of the payment of the balance of VAT nor the imposition of limits on loans from the Deposits and Loans Fund to local authorities will have any lasting effects. The measures that will have a structural impact on expenditure primarily concern the health service and local government finance. A lasting adjustment in the public finances requires measures on a broader front to curb the long-term growth in current expenditure.

The implementation of the measures and the behaviour of the public finances will have to be monitored as the year proceeds to ensure that the intended budgetary adjustment is being achieved.

Monetary policy will be consistent with the exchange rate commitments associated with membership of the EMS. Events during the months before the Gulf crisis demonstrated the advantages that can derive from confidence in the stability of the lira and from a monetary policy consistent with that objective. Market perception of the reduced risk on lira investments is favouring a narrowing of the differential between interest rates in Italy and those abroad and a lengthening of the average maturity of the public debt.

From this year onwards, the setting of monetary targets will be coordinated more closely with the central banks of the other EEC countries, as agreed for the first stage of Economic and Monetary Union. The *ex ante* coordination exercise has already been set in train; it will be conducted in the next few weeks by the Committee of Governors of the Central Banks of the European Economic Community. The primary criterion in the setting of targets will be economic and financial convergence between member countries. More than in the past, individual countries' objectives will be viewed as a measure of their commitment to move towards Economic and Monetary Union.

The Bank of Italy has submitted an initial estimate of the monetary and credit aggregates in 1991 to the Interministerial Committee for Economic Planning. The target range for the growth of the money supply has been set at 5-8 per cent, one point lower than in 1990. The corresponding expansion in lending to the non-state sector should work out at 10 per cent. Total domestic credit should increase by the same proportion, given the target for the state sector borrowing requirement. The credit forecasts are made more complex by the financial innovation currently taking place and by the replacement of domestic credit by loans from abroad. The growth figures indicated by the Bank of Italy for money and credit are consistent with the objectives contained in the Forecasting and Planning Report, which are based on the assumption that the rise in nominal income will slow down by about one percentage point.

Based on information available at 26 October.

Articles

Recent Changes in the Centralized Management of Government Securities (*)

Italian government securities have been centrally managed by the Bank of Italy since 1980. The system has facilitated the settlement of transactions effected by operators and by the central bank and has streamlined the handling of deposits with the Bank's branches. Centralized management has constituted the indispensable infrastructure for the Bank of Italy's repurchase agreement operations, which have expanded steadily since their inception in December 1979. As of 30 June this year, 90.8 per cent of outstanding Italian government securities, with a face value of 869 trillion lire, were centrally managed.

The changes that have occurred in recent years in securities markets in general, and those in the market for government paper in particular, have created a need for swifter execution of transactions and the provision of fuller information to operators.

As part of its plans to rationalize the payment system and the settlement of securities transactions, on 10 September the Bank of Italy initiated operations under its "centralized securities accounts" procedure, which has involved a comprehensive revision of the Bank's securities management and is designed to facilitate dealings between money and financial market operators.

The new procedure is based on the creation of a single nationwide securities account for each depositor; this improves the position of operators in two important respects: namely the efficiency of settlement and the availability of information. In practice, it eliminates or reduces the previous impediments to smooth execution and the risks stemming from the time lag between the transfer of securities and the related payment. The new procedure also gives operators access to information on the state of their accounts, almost instantly when the national interbank data transmission network is used.

1. Centralized securities accounts

Though still adhering to the principle of materiality for securities, the new centralized securities accounts are in line with the most advanced centralized depository systems for handling securities. Such systems generally execute trades in real time, provide for links with international centralized depository systems, and make the transfer of title to the securities dependent on settlement of the payment claim with the central bank. Of these three features, the first two help streamline trading while the third guarantees the security of transfers.

The key operational features of the new centralized account system are as follows:

- the accounting in respect of securities transactions is separate from the material handling of the certificates;
- each participant has a single central account, with separate sub-headings for each type of security, at the Bank of Italy branch of its choice;

(*) *Prepared by the Money and Financial Markets Department.*

- the depository accepts fungible government paper, denominated in lire or foreign currency, in the form of actual certificates or provisional subscription receipts. Central handling is possible even for denominations of less than 5 million lire;
- securities deposits may be made at any branch of the Bank of Italy, while withdrawals are subject to procedures reflecting the Bank's organizational needs;
- transfers between centralized accounts are debited and credited in real time;
- account transactions can be initiated by the deposit-holder either at a branch of the Bank of Italy or directly through the interbank data transmission network (Sitrad). Fund transfers may also be the result of the automatic debiting and crediting of the balances arising from clearing house settlement of securities transactions;
- the account-holder receives statements and other accounting data either from the Bank of Italy branch at which the account is held or through the data network. The network can inform the depositor of the balance in each type of security in real time.

The new procedure permits links with international central securities systems, thereby facilitating the centralized handling of the Italian securities held by foreign operators. The recent adherence of Cedel (Centrale de Livraison de Valeurs Mobilières, Luxembourg) and Euroclear (Morgan Guaranty, Brussels) is a first example of the external utilization of Italy's centralized system and contributes to the exchange of services among national and international securities depositaries.

Centralized securities accounts can be opened by credit institutions and non-bank securities operators. Intermediaries authorized to participate in Treasury bill auctions are not subject to any formalities for admission and all the participants in clearing house transactions must have accounts, since they are used for the automatic settlement of the related balances. Moreover, securities in centralized accounts can also be transferred to certain non-centralized deposits, such as deposits of securities against Bank of Italy advances.

Use of the interbank data network to make account entries increases the speed of transactions and reduces their costs; it is especially beneficial to operators outside the provincial capitals, since in these latter it is possible to operate through Bank of Italy branches. Transfers are effected directly through the central bank's "transaction mode", which has now become operational and responds in real time to the instructions transmitted by operators regarding each trade.

In the first month, the replacement of local securities accounts with centralized accounts has eliminated operators' multiple deposits and permitted a more even geographical distribution of securities operations, 90 per cent of which had previously been carried out in Milan and Rome. The use of the interbank data network has reduced the number of operations handled by central bank branches. And the automatic crediting of interest and redemptions to depositors' cash accounts has eliminated manual entries.

At present, centralized accounts are held by all operators in the government securities market: 340 banks and central credit institutions, 172 stockbrokers and 117 other operators, for the most part commission dealers and financial companies. Eight banks have already begun to make accounting entries via the interbank data network, and another 119 are about to do so. Some 60 operators are now receiving account statements via the network.

2. Settlement procedures

The settlement of securities transactions can be effected in the following ways:
- inclusion in the daily settlement operations of the clearing system under the standard stock exchange procedure;
- direct execution of transfer orders as part of the centralized accounts procedure. In this case the cash settlement can be made directly via the operator's lira account with the Bank of Italy or through the daily settlement of local items in the national clearing procedure.

The procedure also takes into account the settlement risk associated with trading between different types of operator as a result of the lag between the transfer of title to securities and the cash settlement. Such risks are eliminated when the title and the funds are transferred simultaneously. In the absence of such a procedure, the risks increase with the velocity of title transfers and may become systemic, i.e. may extend to operators not involved in the transaction itself.

The centralized account system envisages two new settlement methods to overcome these risks:

- the debiting of the securities account with a deferred value date, i.e. transfer subject to effective settlement. This method provides for an interval of several days from the accounting transfer, according to the vendor's instructions, before the securities acquired are newly negotiable. This procedure safeguards the depositor selling securities against breach of contract by the counterparty: in the event of non-payment, the transfer is simply annulled;
- simultaneous execution. This method will be a complete innovation in Italy and is not yet operational. It will permit the immediate, risk-free conclusion of trades. Simultaneous execution, operating in real time thanks to operators' centralized securities cash accounts with the Bank of Italy, will considerably enhance the efficiency and security of securities transactions.

Speeches

National Economic Policy and Competition between Systems

Introductory Address by Tommaso Padoa-Schioppa, Deputy Director General of the Bank of Italy, to the Conference on "The Single European Market: Public and Private in the Europe of the Nineties" organized by the Centro Nazionale di Prevenzione e Difesa Sociale

Milan, 15 February 1990

1. Introduction

European developments in the nineties, and especially the preparation of the single market, are being studied and debated in all the member states. Nearly every country has carried out analyses and commissioned reports on the problems to be tackled in meeting the Community's deadlines. These documents have become valuable reference points for economic operators in both the public and the private sector. In Italy this information-gathering process has been less systematic, though occasions for discussing the problems and contributions to their solution have not been lacking.

In the introductory address to a conference on the single European market I cannot hope to provide a complete picture. Rather, I shall try to offer a conceptual reference framework. Accordingly, I shall briefly describe the main items of the Community agenda for the nineties and the problems that they raise, and then broadly analyze the implications for Italian economic policy, without going into detail on the various aspects of policy.

2. The Community agenda

The Community agenda for the nineties is marked by three milestones: complete freedom of capital movements by the end of 1990; creation of the single market by 1 January 1993, resulting in an area in which persons, goods and services will be free to move without encountering physical, technical or fiscal frontiers, and, lastly, economic and monetary union, for which a project and a programme exist, while the legal basis and exact timetable have still to be settled.

In giving effect to this agenda, we face two sets of problems: the first concerns consistency and the second the implementing capacity of the Community.

The programme is based on the 1986 reform of the Treaty of Rome known as the Single European Act, which fixed the single market objective and defined the legal and procedural arrangements for its creation. The programme raised two serious problems of consistency, regarding respectively the *distributive* and the *macroeconomic* impact of the single market. The positive effects of the single market on welfare and the growth of the Community economy as a whole risked being accompanied by negative effects in particular regions and sectors that were too weak, too backward or too inefficient to cope successfully with the increased competition. In addition, there was the danger that the incompatibility between fixed exchange rates, freedom of capital movements and national monetary policy autonomy would generate tensions threatening the macroeconomic stability of the single market and even its very existence.

Today, it can be claimed that the problems of consistency are on the way to being overcome. The distributive problem was tackled in what is known as the "Brussels package", the decision taken in February 1988 to strengthen the Community's regional and structural policies, which are largely implemented through the Community's so-called structural funds (the Social Fund and the Regional Fund, etc.), by doubling the budget allocations in a few years. The response to the problem of the macroeconomic impact of the single market is embodied in the decision to proceed towards economic and monetary union.

Let me now turn to the problem of the Community's ability to implement the single market. For many years the problem was seen to lie primarily in the inefficiency of the legislative output needed to permit market integration. Indeed, the Community's implementation of the programme formulated in the Treaty of Rome itself appears to have been prevented by the seizing up of the law-making mechanism. As I shall show in more detail later, the Single Act has largely overcome this problem by streamlining the legislative process, through recourse to the principle of mutual recognition of national regulations and to majority voting in lieu of unanimous decisions for the adoption of much legislation.

Other difficulties in connection with the Community's implementing capacity nonetheless remain, and appear likely to become more serious. The corpus of Community legislation has been expanded enormously, but the Executive, comprising the Commission and the Council, and the judicial system based on the Court of Justice are perhaps inadequate to perform the task that awaits them. There are grounds for doubting whether they will be able to cope with such a large mass of legislation.

To summarize, the Community agenda for the nineties envisages a single market and an economic and monetary union: a programme that is consistent, but also a huge undertaking.

In earlier times such a far-reaching programme would probably have paralyzed the Community; today, however, there are only a few signs of a slackening in the pace of unification. Indeed, recent developments outside the Community suggest that the process could accelerate, even compared with the already rapid rate at which the Community has advanced in the last three or four years.

It would therefore be unwise for a country that found itself in difficulty in respecting such a demanding agenda to hope for a slowdown in the development of the Community, or for a country such as Italy to rely on special clauses postponing the application of Community laws. The latest countries to join the Community – Greece, Spain and Portugal – are in the race behind Italy, which has little chance of continuing to enjoy the special treatment it received when it was the most disadvantaged member state, and which would probably derive little benefit even if it did.

3. Reformulating economic policy

The programme outlined above is in the process of being implemented and Italy is called upon to participate fully and respect the timetable. The need now is to assess the economic policy consequences for the various countries.

The single market has two components, a Community component and a national component, and its implementation draws on the tension between them.

These two components can be considered in different lights. One possibility is to see them as a maximum objective matched with a minimal instrument. The minimal instrument involves the large-scale application of the principle of mutual recognition of national regulations; the maximum objective consists in the dismantling of all frontiers, physical and otherwise, with all the resulting implications for the economic and other spheres. This objective goes far beyond that of creating a free trade area, numerous examples of which are to be found in the distant and not-so-distant past (the United States and Canada established a free trade area only a short time ago). The objective being pursued in Europe is different: it is to create an economically integrated area, governed by common legislation and a common authority set above the participating countries. Considered in another light, the two components are, in fact, seen as the subordination of national legislations to a common system and at the same time the maintenance of the national systems.

The single market will bring competition not only between products, in the sense of both goods and services, but also between systems and regulations. National states and the authorities responsible for economic policy in each country will continue to perform many of their traditional functions. However, the environment will be completely different: open markets coupled with mutual recognition of national regulations.

In these new conditions many of the policies traditionally adopted to protect particular interests and sectors are likely to be detrimental to the general wellbeing of the economy concerned. Only policies and measures increasing overall competitiveness will really benefit an economy. Conversely, policies tending to offset competitive weaknesses without correcting them, to protect sectors without strengthening them, will be to the advantage of countries other than those that implement them.

This is the key feature of the single market, and it gives a special significance to the terms "public" and "private" in the title of this conference. In economics "public" is taken to mean everything that is of a universal nature in an economy or economic system, i.e. that does not permit any economic agent to be excluded from its influence; everything else is "private" and normally corresponds to economic behaviour based on the pursuit of individual profit or economic utility. It follows that in the single market the "public" sphere will only include what is universal under the new conditions or, in other words, what applies throughout the Community. In this sense national policies will lose a key aspect of their "public" nature by being subjected to confrontation, as well as to a degree of competition, and in Community-wide terms can be considered as belonging to the "private" or "particular" sphere. Only interventions by the Community will be truly "public"; national economic policies will lose their universal and "monopolistic" nature and be brought into the sphere of competition.

Seen in this light, the nature and effects of national economic policies will be very different compared with the pre-single-market period. Certain objectives will no longer be viable, others will only be pursuable with different instruments from those that worked when markets were bounded by physical, regulatory and fiscal frontiers. Certain policy instruments will no longer be available, while others will remain feasible but will produce new, and sometimes opposite, effects. Economic policies will therefore have to be completely reformulated, in the same way as the design of a vehicle needs to be adapted to the type of terrain it is to travel over.

4. Market policy

Economic policy can usefully be divided into three strands for the purpose of analysis.

The first strand can be called "market policy", though "allocation policy" or "resource policy" would do as well. It is perhaps preferable to use the word "market" because it is important when talking about the internal market to stress the coincidence between the creation of a single market and the need for a national "market policy".

The primary aspect of market policy concerns the incorporation of Community legislation into Italian law. A few months ago the press published some statistics compiled by the Commission showing that Italy was lagging far behind the other leading EC countries in giving effect to Council Directives. Since these figures were published, the backlog appears to have been reduced somewhat. In September 1989 only 7 Directives had been approved by all the member states, while in January 1990 the figure had risen to 14. However, when Italy and the three most recent adherents (Greece, Spain and Portugal) are excluded from the calculation, the January figure rises to 54. Italy is still seriously behind in implementing Community legislation.

The policy part of the term "market policy" needs to be stressed and understood as referring to the action of persons, not all necessarily of a public nature, whose influence extends throughout the area in which they act. It might appear that the creation of a single market, coupled with the fact that the Community is focusing its attention primarily on market policy (rather than the other two strands of economic policy, which I shall come to later), relieves individual

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member states from having to develop their own. This is not true. Indeed, the greatest need for a national economic policy is precisely in the field of market policy, where the Community is implementing its single market programme. The underlying reason for this need lies in the realization of the single market being based on the mutual recognition of, and competition between, national regulatory systems.

The fields of application of market policy are many. I shall mention only the main ones, which, it is worth noting, are also some of the headings of the debate that is to follow this address.

Firstly, there is what can be called the "services-infrastructure" or "connective services" field. This includes transport facilities, the postal system, telecommunications, power distribution networks and the like. Consider, for example, the difficulty, which I myself not infrequently encounter, of taking part in international meetings without being properly briefed owing to the failure of the Italian postal system to deliver the documents in time, while the participants from other countries with efficient postal services have been able to study the documents in detail and carefully prepare their positions. There is also the question of the access, in accordance with the principle of non-discrimination underlying the single market concept, of foreign users to the preferential rates for some Italian postal services, such as those for printed matter.

There is also the question of "market access". Italian markets impede the access of competitors to works and supply contracts, commercial licences and in other fields. The implementation of the single market will leave no choice but to dismantle such barriers.

The labour market is another field requiring a market policy. Economic decline is the inevitable outcome for a country in which laws and the behaviour of labour and employers result in incomes, productivity and wage agreements being determined in such a way that the return on investment is lower than in other parts of the Community. An example of such a decline occurred in the last century as a result of the differences in what we would now call labour relations that led US railroad companies to prefer Chicago to St. Louis when the first transcontinental railway was built, determining the rise of the former and the decline of the latter. Another, related, problem concerns the mobility of those who are more highly qualified and consequently more likely to change their professional status and place of work.

Finally, there is a problem in connection with the formation of prices. During the last ten years the system of fixing prices has been radically revised in almost every country, with a substantial reduction in the proportion of prices fixed in non-competitive conditions. In Italy, a very large proportion of prices are still "administered" in one way or another or fixed in conditions that are far from being competitive. The liberalization of pricing has not yet been given the priority that it deserves in economic policy.

These, and other, fields decisively influence the competitiveness of the goods and services for which the market is opening up as the Single Act is implemented. One of the key factors in the single market will be the competitiveness of the activities behind the production lines, where the goods and services that are actually traded across frontiers are produced. It is well known that wars are won or lost in the rear lines even more than at the front. It is worth stressing that by "policy" I mean the behaviour not only of the public sphere (the Government, the Parliament, the legal system, public entities and local authorities) but also of other economic agents whose decisions affect the whole of a country's economy, often as a result of legislation. Collective bargaining and wage agreements are a typical example.

One more point needs to be made on the question of market policy. Up to now, I have been using the word market in the sense of competition and the possibility of competing. However, market also means a structure providing certain services, such as a stock exchange, corn exchange or fair, or, more broadly, the financial market. In a phase of economic development in which the services sector is becoming increasingly important, a country will not be competitive if it does not have efficient markets able to compete with those of other countries in terms of facilities for matching supply and demand and fixing prices. In the absence of such markets, the value added that markets produce by facilitating exchanges is likely to be realized elsewhere. This is especially true for products, such as financial services, for which the demand and the supply, quite possibly originating in the same country, are easily matched on a market in a third country.

5. Development policy

The second strand of economic policy is development policy, which can also be called the policy for incentives or adjustment, regional and sectoral. It aims to attenuate regional disparities and to alleviate the difficulties of declining industries. This field includes measures to mitigate the negative effects of unemployment by providing subsidies and support to persons out of work or facilitating their retraining for new jobs.

As with market policy, both the member states and the Community are involved in development policy. The doubling of the structural funds I referred to earlier is a reflection of the increased commitment in this field. The Community has a policy for backward regions, coupled with another for declining sectors, and is paying growing attention to social policy matters. However, most development activity is still at the national level.

The advance of the single market makes it necessary for countries to define what they must do as regards development policy. As a first step we should improve our ability to negotiate with the Community in the various fields involved. Consider, for example, the lengthy negotiations that Italy has conducted on steel production quotas and the debate on its ability to use the Community funds it is allocated.

In addition to acting directly in the field of development policy, with financial and legislative instruments of its own that resemble those used by member states, the Community intervenes indirectly to regulate their development policies with the aim of opening up markets and safeguarding competition. Consequently, another task of national development policies is to comply with the rules laid down by the Community on state support for enterprises, public sector demand, competition, etc. Italy not only grants more state aid to industry than the other EEC countries, but its choice of instruments is often unhappy, exposing it to Community criticism and penalties even when the same supportive effect could have been obtained with legally acceptable instruments.

Lastly, and perhaps most importantly, there is, in fact, no guarantee that all the measures the Community allows member states to take will be to their advantage. Nor does it go without saying that when a country conforms with all the limitations imposed by the Community to ensure equal competitive conditions, it will not still be faced with difficult choices as to the methods and orientations it should adopt in its development policy. There is a considerable difference in practice between the development policy conducted in an open economy and the same policy confined to a closed economy. The easiest way to appreciate this is to note that in an open economy the cost of support measures is borne entirely by the country's taxpayers, while it is by no means certain that the benefits will continue to be enjoyed by its citizens. Indeed, in a typical situation of heterogeneous objectives, the effects of many measures will be felt elsewhere much more than by the intended beneficiaries.

If development policy is to be effective in the single market, an open economy based on the principles of mutual recognition and non-discrimination, the transfer rationale will have to be replaced by an investment-based one designed to increase the competitiveness of beneficiaries rather than to subsidize their inefficiency.

It is Italy's policy for the development of the Mezzogiorno that will be most affected by the change in the rules of the game. The measures adopted will be subject to closer Community control, not least because there are now regions in the Community that are much poorer than the South of Italy. The Community is therefore taking much more care to avoid engendering internal competitive distortions. But the interventions accepted by the Community will also need to be reassessed in terms of their effects and effectiveness, taking account of the different rationale implicit in an open market.

6. Macroeconomic policy

The third strand of economic policy is macroeconomic policy: notably monetary and fiscal policy. In very summary terms, national authorities can be considered as having a dual task: to contribute to the implementation of the Community framework for the future conduct of macroeconomic policy and to prepare member states to operate in the changed environment.

At this point it needs to be stressed that the Community macroeconomic policy framework is marked by a pronounced disparity between monetary policy and fiscal policy.

The design of the former is at an advanced stage: we know what a monetary union is and a clearly-defined programme exists for the transfer to the Community of all responsibility for monetary policy. The implementation of monetary union along the lines laid in the Report of the Delors Committee is perhaps the most important task facing the Community. Italy, moreover, will have a major role to play because it will be during its presidency of the Council, which begins on 1 July, that the Intergovernmental Conference will convene to draw up the Treaty of the Economic and Monetary Union. As well as fulfilling this Community commitment, Italy itself will have to prepare for the new conditions this will bring. This process is already under way in the monetary field: the adoption of the narrow EMS fluctuation band for the lira and the completion of the liberalization of capital movements before the deadline.

On the fiscal front, by contrast, the Community framework is much less clearly defined. There is general agreement that the future European central bank should be precluded from undertaking any form of monetary financing of budget deficits and that the Community should not support countries in financial difficulty as a result of budgetary imprudence. The question of whether these two rules should be supplemented by others limiting countries' freedom with regard to budget deficits is still open. It nonetheless appears likely that Community legislation will leave considerable scope for national discretion in fiscal matters.

In the fiscal field, moreover, the degree of preparation of the Community framework and that of the member states is reversed compared with the monetary policy field. We are faced, especially in the case of Italy, with a pressing need to prepare for fiscal policy to be conducted in a Community environment characterized by the single market, complete freedom of capital movements and monetary union. Preparation at the national level is more important than that of the Community framework, first, because only limited budgetary discipline will be imposed directly by the Community, while countries with unbalanced finances will incur a heavy penalty in terms of slower growth; and secondly, because macroeconomic policy will no longer be able, at the national level, to have recourse to monetary policy and will therefore have to rely entirely on fiscal policy.

Italy is starting with a severe handicap compared with the other Community countries. Ireland, Denmark, the Netherlands and Belgium have followed the example of the United Kingdom and France and made enormous fiscal corrections, and some of these countries now even have budget surpluses. Given the speed with which these countries achieved their adjustments, Italy can be considered to be at least three or four years behind – a lag that needs to be made good as rapidly as possible.

7. Conclusions

The foregoing considerations can be summed up in the following propositions.

In the market policy field there will be more "market" in the rest of the Community than in Italy, unless corrective measures are adopted. The primary task of national policy in Italy will therefore be to correct this imbalance, which, in a single market based on the principle of mutual recognition of national regulations, will otherwise penalize the Italian economy severely. Consequently, there is an urgent need to rethink all the components of Italy's market policy: price formation, the labour market, the infrastructure and access to markets.

In the development policy field, measures of a purely protectionist nature will prove to be counterproductive because their cost will continue to be borne entirely by a country's taxpayers, while the benefits will be spread throughout the Community. It will therefore be necessary to refocus sectoral and regional development policy with the aim of improving competitiveness.

Finally, as regards macroeconomic policy, we are moving towards a situation in which the implementation of monetary union will make it necessary for fiscal policy to shoulder the whole burden of the conduct of economic policy. Countries whose public finances are in serious imbalance will be penalized both in their economic growth and in their ability to use the budget counter-cyclically. Italy has very little time left to regain control over the budget instrument.

Allow me to conclude with a more general consideration. Since the end of the forties, Italy's approach to European issues has been based on the belief that European integration is a positive factor in the country's economic and social development. Over the years it has remained lucidly and unwaveringly faithful to this belief, which is shared by the great majority of the population.

From time to time, in coincidence with the setting of new goals for the Community (the advance from integration in the coal and steel sectors to the creation of a common market, the decision to establish the European Monetary System and, most recently, the objective, embodied in the Single Act, of achieving an internal market without frontiers), there have been prophesies of doom. Rereading the articles written on each of those occasions stressing the risks each step involved for Italy, one finds almost exactly the same words being used in connection with membership of the EMS as had been used to describe the risks of participating in the common market. The prophets of disaster were proved wrong.

Is this a sufficient reason for being confident about the future? Possibly not. The task ahead is more demanding than the earlier ones. The timetable is tighter and, above all, the fields involved are those in which Italy's weaknesses are most pronounced: public intervention in the economy, the efficiency of services, public finances and the development policy for the South of Italy. Moreover, the first aspect of competition between systems concerns countries' ability to create a system at all.

The original belief that the interests of Italian development coincide with those of European development is still widely held. But the effort the country will have to make to take advantage of the opportunities offered by the single European market is so great that it will require all our energy if it is to be successful.

The Italian Banking System

Address by the Director General of the Bank of Italy, Lamberto Dini, to the Conference on "The Financial Markets in Italy – Stepping up the Pace of Change" organized by Confindustria

Rome, 17 July 1990

1. In judging the adequacy of a financial system to the needs of the economy, one must bear in mind not only its present condition but also the directions and speed of changes that concern it. These changes, indeed, viewed from a structural standpoint and therefore looking beyond the short run, are the variables of crucial importance.

The Italian credit system is basically a highly sound one, with a proven ability to provide financial support to the economy even in times of acute crisis. At the same time, it is still lagging behind in a number of areas, above all in its capacity to supply high-quality services for today's more demanding customers and in restructuring so as to adapt to the requirements of new market conditions. In addition, through no fault of its own, the credit system's exposure to international competition has come later than that of other industries. Some problems of market segmentation and non-economic behaviour remain, and these must be eliminated.

On the other hand, for at least a decade now, the stream of innovation has been strong and rapid. Indeed, the pace of change in the operating environment for credit intermediaries has accelerated. The impulses imparted to the system are subject to underestimation owing to the lag with which the full consequences of these changes unfold.

I propose in my remarks today to analyze the principal factors of change at work, thus making a contribution to the assessment of the likely evolution of the system and of its responsiveness to the exigencies of modernization.

2. Among the factors of change, one must obviously call attention first to exchange liberalization, which was completed two months ago with the last of the implementing decrees. Yet the practical and symbolic significance of this final step should not make us forget that ever since the Second World War the objective of external openness has been an integral part of the ideas inspiring our country's economic policy, and the action of the Bank of Italy in particular. True enough, contingencies of various kinds sometimes forced temporary departures from those principles, most notably in the trying years of the seventies. But the event that best represents our country's renewed participation in the process of international economic integration, namely, Italy's adhesion to the European Monetary System, now lies well behind us.

That decision, with which many disagreed at the time, was taken when conditions of fundamental disequilibria were still in evidence. For the Bank of Italy, it became the linchpin of action. It was an essential element in setting the economy back on a sound footing, even more through its influence on the behaviour of market participants than through its mechanical effects on prices and incomes. The gradual recovery in corporate health that was set in motion has made it possible in more recent months to eliminate the last vestiges of controls on capital movements with no adverse effects.

Viewed in its entirety, the operation conducted over the span of a decade by means of interest rate and exchange rate policy combined with the gradual removal of administrative restrictions can only be judged a success. Of course, it was not without costs, one of which was the partial insulation of the financial system from foreign and international markets. These costs must be acknowledged and remedial action planned.

With the liberalization of foreign exchange accomplished, that relating to the provision of financial intermediation services is now heading the agenda of the authorities and of financial sector operators. The Bank of Italy favours closer integration of the credit and financial systems of Europe, which would not only result in a broader range of alternatives for customers and sharper competition among intermediaries but also promise further benefits from the comparative testing of organizational, regulatory and contractual arrangements. Measures have been taken in recent days that substantially broaden the scope of operations for foreign banks in Italy.

The liberalization of foreign exchange transactions and that of the provision of financial services are necessary conditions for completing the single market in Europe and more generally for reaping the benefits of the globalization of capital markets; they are not, however, sufficient conditions. In an activity that more than others is intrinsically bound up with institutional and contractual arrangements, regulatory adjustment and in some cases harmonization will also be required.

The Basle agreement of July 1988 among the Central Bank Governors of the Group of Ten on capital adequacy standards for international banks is the prototype of rapidly expanding international regulatory action, in which the Bank of Italy is actively involved. Its goal is to avoid both the competitive distortions and the substantial vitiation of prudential regulation that could occur when, in an integrated market, intermediaries are subject to significantly different national rules. A crucial aspect of this operation is the need for relatively uniform regulation of activities that are more and more frequently carried on by different types of intermediary, whose particular lines of specialization, moreover, may vary from country to country. This applies in particular to securities investment and trading, which are conducted by banks and by securities investment firms and are the subject of two EEC draft Directives. The most promising solution, admittedly a complicated one, involves the analytical identification of the types of risk entailed in the business of all intermediaries and the subjection of each type of risk to uniform prudential rules. The regulations governing the intermediary as such would thus follow simply from the composition of its business activities.

To my mind, this set of developments suggests two conclusions. The first is that the logic of competition, both between intermediaries and between regulatory systems, tends to produce regulations that are largely "neutral" with respect to the organization and composition of the financial intermediation carried on by the single enterprise. This makes the choice of an intermediation "model" much less critical. The second is that thanks to the emergence of such harmonized regulations and the increasingly close contact between the systems of different countries, the characteristic institutional features that now distinguish national systems will be toned down, while within each system the scope for spontaneous specialization induced by market forces will be expanded.

The progressive approximation of the various financial systems does not signify compliance with a predetermined model; rather it is an empirical search for the most appropriate solutions in the current phase, in the course of which all the countries involved have exhibited considerable openness to change. A few days ago, for instance, at a conference in London, President Pöhl expressed the opinion that in reorganizing the central banks within the future European System of Central Banks, they "should be made responsible for bank and stock exchange supervision where this is not already the case, as, for example, in the Federal Republic of Germany".

3. Another of the principal factors of change in Italy's traditionally bank-dominated financial system has been the drive in recent years to foster and strengthen the capital markets.

With the inflation of the seventies the bond market was gripped by crisis, and such emergency measures as the portfolio constraint on banks and the ceiling on bank lending had undesirable side effects, namely bank hyper-intermediation and perpetuation of the status quo in the banking system. Subsequently, it was the development of the government securities market that brought to savers alternative financial investment opportunities, to banks an element of competition and a means of overcoming local market segmentation, and to the central bank the possibility of conducting monetary policy through open market operations rather than administrative measures. Today, despite the limitations inherent in the absolute preponderance of the Treasury as issuer, Italy's very broad market in debt instruments is a significant strong point and compares favourably with those of other countries.

The development of a private capital market is an essential prerequisite to economic efficiency. To forge such a market, a number of catalyzing elements have long been identified: a code of conduct for traders, rules guaranteeing transparency, the presence of institutional investors and tax neutrality with respect to financial assets. Significant advances have been made in these fields in the years past, and I feel the time is now ripe to bring this work to completion. Draft legislation has been proposed for the creation of pension funds and other forms of intermediation of savings, for rules on insider trading and takeover bids and for the amendment of tax provisions. With the passage of the law for the corporate reorganization of public banks, Parliament can look forward to taking up these bills once legislation on securities investment firms and the anti-trust act have been passed.

When the capital markets are able to function more effectively, the relative importance of their role as compared with that of the banks in the financing of enterprise can vary with the needs of the economy. For quite some time they may be relegated to minority status in Italy, reflecting the peculiar size structure of Italian businesses. There would be nothing anomalous in this; the only anomaly is the complete absence of practical alternatives.

Far from there being an inherent antagonism between the logic of the market and the interests of intermediaries, the development of the market visibly breeds a greater variety of intermediaries, and their efficiency itself improves with their immersion in a market environment.

4. The third factor of change consists in the evolution of the rules governing intermediaries. From the post-war years onwards, the received model of credit intermediation has been revised to strengthen the links between the market and banking. Accelerating in the eighties, this process has led to a thorough overhaul of legislation and operational methods. A series of developments – the establishment of uniform supervisory rules in lieu of specific rules for distinct categories of institution, the gradual relaxation of operational, geographical and branching restrictions, the affirmation of the principle that banks, be they private or public, are enterprises, the possibility extended to public banks of issuing equity securities – in conjunction with the unification of the market, have all attenuated the demarcations between the various categories of institution and their functions, while the institutional philosophy on which our segmented credit system was built is itself fading away. I stated this view in 1983, in a round table on the autonomy of the banking enterprise organized by the LUISS University in Rome; the course of events and trend of thinking since then appear to corroborate it in full.

The logical corollary of this policy, implemented mainly through administrative action by taking advantage of Italy's flexible Banking Law, is the proposal that the multifunctional group should be taken as the organizational standard. This proposal addresses two principal needs: to enable large credit institutions to carry on the full range of business permitted by law, eliminating another of the particularistic features typical of legislation focused on the individual institution; and to permit amalgamation of institutions in both the ordinary and special credit sectors and so turn the professional capabilities acquired over the years fully to account.

The multifunctional group and the innovations contained in the three bills on financial intermediation now before Parliament offer broad scope for reorganizing and rationalizing the credit system. Nonetheless, further steps could be taken in pursuit of the legislative de-specialization of credit institutions. This would require thoroughgoing amendment of existing legislation, not so much of the Banking Law itself as of the laws that govern special credit by sector: the rigid match-up between purposes of loans and disbursing institutions would need to be eliminated; revision of the system of subsidized credit would be inevitable.

On the other hand, extreme caution would have to be exercised as regards any easing of another restriction now placed on banks, that is, the ban on equity participations in non-financial companies. The risks to the banking system would have to be most carefully weighed against the possible benefits. The same advantages can also – and perhaps better – be pursued through the great variety of institutions that modern financial systems make available. I should add that even in Germany proposals have been made to amend this particular arrangement, so typical of the German financial system.

5. Compounding the changes resulting from the modification of the legislative framework will be those stemming from the new approach taken by the banking supervisory authorities. In his Concluding Remarks to the most recent *Annual Report*, the Governor of the Bank of Italy set forth the general plan. The approach restricts administrative authorization to fundamental transformations of banking institutions and foresees the exercise of prudential control essentially through quantitative rules and the assessment of both the overall risks taken by banks and the robustness of banks' structures. I should like to underscore the appreciable effects that this has already had on the banking market, particularly in two respects.

Though only three months have passed since the liberalization of branching rules and though many banks – large ones, especially – are still drawing up their expansion plans, notification has already been received and cleared for the opening of more than 650 new bank branches. Plans for hundreds more have been submitted. The coming months will presumably see an unprecedentedly rapid increase in the number of branches and the largest impact on competitive conditions ever recorded.

More gradual but equally incisive are the effects of the capital requirements introduced in 1987, which limit the amount of the credit risk a bank can take on as a ratio to its capital and reserves. These effects can be observed in the increasingly close correlation between changes in market shares and capitalization, in the crucial role now played in fixing expansion objectives by calculation of the capital that will be tied up and in banks' plans for capital increases and mergers. Profitability thus becomes the key strategic variable for all banks, public and private alike. What is involved is far more than a reshuffling of market shares; it is a transformation of behaviour and mental habits.

6. A final field in which rapid progress is being made is the technology and organization of markets and payments systems.

In 1989 the handling of out-of-town cheques was taken into the clearing houses; uniform procedures were imposed on banks and cheque clearance time was shortened considerably. Efficiency should be enhanced further by the system, now being introduced, of cheque truncation, involving the computerized transmission of the information necessary to complete transactions.

Last year also witnessed the start-up of the new computerized interbank clearing and settlement system interlinking the main banks and the Bank of Italy. Furthermore, the screen-based market for interbank deposits began operating this February, and its daily turnover already exceeds 4 trillion lire.

Other important innovations have also been made in recent years: the inception of screen-based trading in government securities in 1988, the procedures for centralizing share certificates at Monte Titoli and government securities at the Bank of Italy, and the revised settlement system for securities trades.

By virtue of these achievements we are now in the forefront internationally in a number of fields; in others, much progress still needs to be made, but the Bank of Italy is determined to continue its action to eliminate areas of inefficiency.

7. I have sketched an analysis of the innovative impulses already injected into the system or foreseen for the near future. The picture is one of change that is at once rapid, extensive and deep, and I am convinced an authentic transformation of the Italian financial system is already under way. The impetus

imparted to the system is considerable, involving fundamental changes that are bound to produce long-term effects. This consideration should temper the understandable impatience of those who are concerned over the prospect of competition between systems, now imminent and certain to be momentous.

The new legal framework that will govern financial activity in Italy is being forged by a series of measures. Whether an all-encompassing approach might not be more effective is a question of legislative method which I leave to specialists. I should only point out that the body of Community legislation itself, which will inevitably modify Italian law, has been produced by stages and is far from complete, that subsequent systematization of the laws is not precluded, and that the substantive problem is whether there is a coherent overall design. I submit that this design does exist and that it is sufficiently clear. Its constituent elements are: endorsement of international openness and harmonization; expansion of the "market" components of financial activity and strengthening of the rules of conduct and the infrastructure that make for more efficient markets; a plurality of types of intermediary and forms of specialization, within a comprehensive and balanced regulatory framework; separation between banks and non-financial companies so as to avoid dangerous linkages; adoption for all credit institutions of a single legal form appropriate to enterprise and such as to permit transferability of capital and a role for private investors; regulations allowing the flexible conduct of financial intermediation and ensuring suitable prudential controls regardless of the organizational solution adopted; continuous refinement of supervisory rules to permit the greatest possible flowering of entrepreneurship and competition consistent with the effective limitation of systemic risk.

Once this institutional framework has been defined and made operational, the adaptation of the financial system to the needs of the economy will have to spring from the interplay of competitive forces and the independent decisions of operators. It is urgent that this process be completed and it is therefore proper that legislative action has focused on the three laws that realize the principles set out above, even if the legislative framework will require supplementation. With these premises, I see no reason for lack of confidence in the ability of our intermediaries to meet the challenge of foreign competition and achieve a restructuring comparable to that accomplished in recent years by Italian industry.

Statement by the Governor, Carlo A. Ciampi,

to the Budget, Treasury and Planning Committee of the Chamber of Deputies in preparation for their preliminary examination of the 1991 budget

Rome, 10 October 1990

In my remarks I shall report on the economic results for the current year and the developments expected in 1991; I shall concentrate primarily on the financial aspects, but without ignoring their obvious links with the real economy.

1. When the objectives for 1990 were being set, the effects of the measures taken at the start of 1989 to counter the resurgence of inflation were beginning to make themselves felt, in Italy as in other industrialized countries. The economic policy adopted at that time was aimed at avoiding a cyclical disparity between Italy and the world economy and bringing inflation down towards the European average.

The Finance Bill provided for holding the Treasury borrowing requirement down to 133 trillion lire, about 20 trillion less than the figure on a current programmes basis. This would have made it possible to cut the requirement from 11.1 per cent of gross domestic product to 10.4 per cent. GDP was expected to grow by 3.2 per cent in real terms, the same as in 1989; domestic demand was forecast to increase by 3.4 per cent, more than half a point below the rate recorded the previous year. Despite the slowdown in economic activity, the balance of payments on current account was expected to show a deficit equal to 1.2 per cent of GDP. Particular importance was attached to the objective of reducing consumer price inflation to an annual average of 4.5 per cent in 1990.

Against this background, the Bank of Italy set a target range of 6-9 per cent for the growth in the M2 money supply. Lending to the non-state sector was projected to rise by 12 per cent.

Provisional estimates for the year as a whole are subject to a wider margin of uncertainty than in the past owing to the Gulf crisis, which interrupted the normal course of the economic cycle in August, worsening the prospects for the last few months of the year. Subject to that reservation, the results for 1990 appear to be basically in line with the objectives, except for prices, to which I shall return in a moment. GDP should increase by not much less than 3 per cent; the growth in domestic demand should also not differ from the forecasts by more than a few decimal points.

As regards the external accounts, in the first eight months of the year the trade balance showed an improvement of almost 4 trillion lire by comparison with the same period of 1989 owing to the favourable movement in the terms of trade caused by the weakness of the US dollar and low world market prices for raw materials; the figures for the last four months of the year will be adversely affected by the sharp rise in the prices of oil products. The results for services and transfer payments are likely to be disappointing, owing to the further decline in net receipts from tourism and the continuous rise in interest payments on the foreign debt. Figures for trade in services in the first half of the year have become available only in the last few days owing to changes in the regulations and in the collection of foreign exchange statistics; if the trends they reveal are confirmed in the second half of the year, the overall current account deficit will have to be revised upwards from the forecast of 0.7 per cent of GDP published in the Forecasting and Planning Report.

The annual average rate of inflation, measured in terms of consumer prices, will work out at around 6 per cent, compared with the target of 4.5 per cent. This slippage constitutes the most negative result of the year; the differential of about 3 percentage points in relation to the average for the other ERM countries has remained unchanged. There is an obvious inconsistency between the continued existence of a differential of this order and the discipline inherent in the exchange rate agreement of the EMS.

The causes of this disappointing result are domestic. If movements in the world market prices of imported materials and the appreciation of the lira are taken into account, it can be seen that until the Gulf crisis the inflation due to domestic factors was being attenuated by the external sector; this is confirmed by the fact that the increase in the GDP deflator (7.4 per cent) was greater than that in domestic demand (6.6 per cent). In manufacturing industry, the small productivity gains and the sustained rise in nominal wages kept the increase in unit labour costs above 6 per cent in the first half of the year. The prices of services that are not subject to control, which had risen by 8.4 per cent in 1989, continued to increase at an average rate of over 8 per cent in the first six months of this year. The growth in consumption also generated price pressures; wages rose far more rapidly than had been predicted, especially in the public sector. The budget deficit is likely to amount to around 140 trillion lire, compared with the original target of 133 trillion; the need to prevent greater overshooting led the Government to introduce tax-raising measures in the course of the year, with consequences for prices.

The behaviour of financial assets and credit in 1990 reflects the slowdown in economic activity and the restrictive stance of monetary and exchange rate policy.

At the end of the year the growth in domestic lending to the non-state sector is likely to be around 13 per cent, about one point higher than forecast but more than five points less than in 1989. In the first eight months of the year households and firms purchased securities to the value of over 93 trillion lire, 10 trillion more than in 1989. The strong demand for securities made it possible to keep the growth in the M2 money supply within the target range (6-9 per cent) and below the trend rate of growth in nominal GDP.

Exchange rate policy has been and still is an essential weapon in the central bank's armoury. The credibility of the commitment to greater monetary stability has been reinforced by the decision in January to adhere to the narrow fluctuation band of the EMS and by the completion of the liberalization of exchange controls in May. Confidence in the lira stimulated large capital inflows, which continued in spite of a reduction in the differential between interest rates in Italy and those abroad. Between December 1989 and September 1990 the short-term interest rate differential narrowed by two and a half points in relation to Germany and all but disappeared in relation to France.

When the Gulf crisis erupted, Italy's balance of payments on a settlements basis was in surplus, the trade balance was improving and the exchange rate of the lira was stable. In the financial markets the crisis caused investors to shift their preferences immediately towards short-term securities. Medium-term interest rates initially rose more sharply than those abroad, an unwarranted reaction even in the light of the state of our public finances. By not engaging in its usual short-term operations with the banking system for a few days at the beginning of September, the Bank of Italy refrained from absorbing the liquidity created by the banks' unwillingness to replace maturing government securities; at the same time, it declared itself disposed to sell medium-term paper from its own portfolio on less favourable terms than those available on new Treasury issues. Investors responded by purchasing securities worth around 3 trillion lire from the Bank of Italy over two days and creating excess demand on the secondary market; bond prices accordingly rose.

Subsequent Treasury issues, which were offered on the same terms as a fortnight earlier, were well received, being allocated at rates about half a point below maximum issue yields. Interest rates are now around half a point higher than before the Gulf crisis, more or less in line with the average increases observed in international markets. During September the Bank of Italy brought bank liquidity back on course, so that at the end of the month it touched one of the lowest figures of the year; it is currently at a normal level. The policy action I have just described, which was short but sharp, was made possible by the strength of the lira; its success will be of more than passing significance only if the Treasury's position as an issuer is strengthened by credible budget measures for 1991.

To sum up, the Italian economy achieved satisfactory growth in 1990, thanks partly to the favourable international climate prevailing for much of the year and to the investor confidence that certain economic policy decisions inspired both in Italy and abroad. It did not achieve the hoped-for progress in terms of greater convergence with the other Community countries as regards inflation and the public finances.

2. The Gulf crisis is obscuring the picture of the world economy in 1991. Uncertainty about the course it will take and the both inflationary and recessionary forces it has engendered led those attending recent international meetings to conclude that they should keep economic policies unchanged, intensify international coordination and redouble their efforts to correct the specific disequilibria of individual economies.

In Italy, according to the objectives indicated in the Government's Forecasting and Planning Report, domestic demand and gross domestic product are both expected to increase by 2.7 per cent next year. Inflation, measured in terms of consumer prices, should fall to an average annual rate of 5 per cent; taking into account the figure likely to be recorded at the beginning of the year, this implies a slowdown to around 4 per cent by the end of 1991.

These targets, and in particular the one for inflation, are undoubtedly ambitious; they will nevertheless be pursued with determination. The obligations we have undertaken as a result of adherence to the narrow fluctuation band and the liberalization of exchange controls and those we intend to assume in the realization of economic and monetary union in the European Community require our economy to move more rapidly towards achieving the conditions prevailing in the other ERM countries. Incisive and coordinated action involving all components of economic policy is required, however, if the slowdown in inflation is to be resumed despite the higher cost of oil products. In setting prices and wages, the two sides of industry must abide by the declaration they made in January that they intend to pursue a policy consistent with the Government's macroeconomic objectives. The transfer of real resources as a result of the deterioration in the terms of trade would have far more serious repercussions, in terms of employment among other things, if a wage/price spiral were to develop. The experiences of the two previous oil shocks must not be forgotten. The behaviour of the public sector as an employer and as a provider of services is fundamental in this respect.

The restoration of sound public finances remains the central issue for the Italian economy. Failure to achieve this objective prevents balanced growth, makes our economy more vulnerable to extraordinary events and conflicts with full participation in the construction of Europe.

Italy also compares unfavourably with the other leading Community countries in terms of the trend of public debt. Between 1981 and 1989 the ratio of net public sector borrowing to GDP in Italy declined by just over one percentage point, falling from 11.4 to 10.2 per cent, whereas the average for the other EEC countries came down from 3.9 to 1.1 per cent.

The differences in the rate of current borrowing are reflected in the overall size of the public debt; over the decade this increased by almost 40 percentage points in relation to GDP in Italy but by only 10 points in the other EEC countries.

The Government document published in May indicated the stages in the adjustment of the public finances: achievement of a budget surplus net of interest payments in 1991; complete elimination of the budget deficit on current account, which was equal to 5.7 per cent of GDP in 1989, over a given number of years; and a trend decline in the ratio of the public debt to GDP from 1993 onwards.

More specifically, the document put the 1991 borrowing requirement on a current programmes basis at 173 trillion lire and that laid down as a target at 131 trillion. The estimates were based on an inflation rate of 4.5 per cent and constant real interest rates.

The Accountant General's Office has now increased the estimate of the borrowing requirement on a current programmes basis to about 180 trillion lire. The difference between this and the estimate made in May is attributed mainly to the effects of the Gulf crisis and the attendant rises in costs, especially in interest payments, the increased financial requirements of the health and social security sectors and the lower-than-expected trend in government revenue.

The Finance Bill presented to Parliament confirms the target for the state sector borrowing requirement at around 132 trillion lire. Consequently, the adjustment to be made is of the order of 44.5 trillion, after taking account of the estimated saving of 3.5 trillion in interest payments expected to result from the reduction in the borrowing requirement. The surplus net of interest payments is put at 8 trillion lire.

The adjustment of 44.5 trillion lire would consist of a reduction of 18 trillion in expenditure and an increase of 21 trillion in revenue; the proposals confirm that 5.6 trillion lire should be raised from disposals of state assets.

In the light of the overall figures that have been announced, the proposals should have a positive impact on market expectations; moreover, they do not appear to conflict with current and foreseen cyclical developments. In relation to GDP, the borrowing requirement is expected to fall from 10.7 per cent in 1990 to 9.3 per cent in 1991; the achievement of a primary budget surplus of 8 trillion lire is an important intermediate objective.

It remains difficult to express an opinion on the probability of achieving the various planned adjustments, since by their very nature several of the proposed measures entail estimates that are subject to a high degree of uncertainty. A number of important adjustments are conditional on swift parliamentary approval of the measures accompanying the Finance Bill. The public accounts must be carefully monitored during the year so that any further necessary measures can be taken, including those relating to the level of economic activity in Italy and the rest of the world.

Besides considering the distribution between revenue and expenditure measures, the qualitative evaluation of the proposals should also distinguish between provisions with a continuous effect and those that are of a one-off nature. In addition, it should assess their impact on the mechanisms that generate an automatic expansion in expenditure.

On the revenue side, the "permanent" increases are put at 6 trillion lire, of which 2.3 trillion stems from the increase in excise and stamp duties, 3 trillion from the campaign against tax evasion and 700 billion from the rerating of property. The bulk of the increase in revenue is of a non-recurrent nature, in that around 5.8 trillion lire results from the bringing forward of VAT payments and 8.4 trillion depends on companies exercising their right to revalue their capital assets and to unlock retained profits held in tax-exempt reserves. In 1991 the ratio of central government tax revenue to GDP, disregarding non-recurrent receipts, is expected to increase by around 1 percentage point. If taxes levied by other branches of government are also included for the purposes of international comparison, the overall ratio is one of the highest in the EEC.

On the expenditure side, 4 trillion of the 18 trillion lire to be saved consists of a reduction in the funding of local authority expenditure and 3.5 trillion of cuts in investment. The major changes that are intended to curb the growth in expenditure over the longer term involve primarily two sectors: local government finance and the health service.

The measures relating to local government finance complement the changes made earlier this year in the regions' powers of taxation; they will lead to a reduction of 2.5 trillion lire in central government transfers to local authorities, which in turn will levy new taxes.

With regard to the health service, it should be recalled that the expenditure of Local Health Units has far outstripped their budget allocations in the last few years; the overspending amounted to 8 trillion lire in 1989 and a much larger discrepancy is forecast for 1990. The measures now planned, which complement the fundamental changes foreseen in the reform of the system under examination in Parliament, should produce budget "savings" of 5.35 trillion lire by reducing abuses, limiting exemptions from subscription charges and increasing the proportion of costs borne by patients.

The sums involved in the measures relating to pensions and social security benefits are smaller, totaling around 1.5 trillion lire. This is the field where the underlying trends in expenditure have been reinforced by decisions taken this year, especially regarding pensions awarded in particular years and the pensions of self-employed workers, and by the effects of court rulings.

The need for reform in this sector has been debated for years. I do not think it would be out of place to recall the conclusions of the Commission set up in 1988 by the Minister of the Treasury under the chairmanship of Professor Steve. The Commission stated that if no action were taken the deficit would grow to a size that was incompatible with correction of the budget imbalance. It suggested raising the pensionable age, changing the method of calculating pensionable income and amending the conditions for making pensions up to the minimum, for the cumulation of pensions and for revertibility; it insisted on the need for balance between benefits and contributions, with limited recourse being made to general tax revenues. The link between contributions and benefits was considered to be a crucial aspect of the reform, not only because it ensures that expenditure is covered but also because "it helps curb the forces tending to push up expenditure by demonstrating that pensions essentially constitute a transfer of income from the current workforce to pensioners."

From a more strictly financial point of view, it will be necessary in 1991 not only to find new saving in order to finance the borrowing requirement of 132 trillion lire but also to provide for the servicing of a public debt that by the end of 1990 will be close to 1,300 trillion lire, equal to 98.4 per cent of GDP.

Four-fifths of this debt is in the form of bonds with an average maturity of two and a half years. Securities worth about 430 trillion lire will have to be replaced in 1991, not to mention the Treasury bills maturing in the course of the year. Including the securities likely to be issued to cover the 1991 borrowing requirement, the volume of gross issues to be made next year will rise to about 520 trillion lire, a figure without parallel in any other country of the European Community.

I would be failing in my duty to Parliament if I concluded this central section of my remarks without expressing the Bank of Italy's serious concern at the state of the public finances. The problem has claimed the attention of us all for many years; it has certainly not been ignored, but the measures that have been taken so far, some of which have been far from easy, have only contained the problem and averted crises; they have not prevented a further deterioration, as shown by the growth in the public debt in relation to GDP. Action is urgently required. The final objective, as indicated in the Government's planning document of last May, is to reverse the tendency for the debt/GDP ratio to increase, to change over from a perverse upward spiral to a virtuous circle of actual decline.

I would like to express the hope that Parliament will confirm the scale of the budgetary measures proposed by the Government and reinforce their impact on the underlying trend in expenditure. Although the size of the gap expected in 1991 between the targeted borrowing requirement and the outturn on a current programmes basis now makes it inevitable that both structural and strictly contingent measures will have to be introduced, it is unthinkable that overshooting on this scale should have to be tackled year after year, that repeated emergency packages should have to be adopted which may conflict with cyclical requirements.

Only when expenditure has been brought under control will it again be possible to use the budget as an instrument for managing both the cyclical and structural aspects of the economy, and only then will Parliament regain its power to determine economic policy.

3. The Bank of Italy has made an initial forecast of the growth in the monetary and credit aggregates in 1991 strictly on the basis of the macroeconomic assumptions regarding inflation and the public finances contained in the Forecasting and Planning Report and has presented it to the Interministerial Committee for Economic Planning. Domestic lending to the non-state sector is projected to expand

by around 10 per cent. We propose a target range of between 5 and 8 per cent for the money supply, one point lower than the range set for this year.

In this regard, I must inform you that in the next few weeks the Committee of Governors of the Central Banks of the European Economic Community will conduct an exercise in the *ex ante* coordination of member countries' monetary policies for the first time. The Bank of Italy has been pressing for such coordination ever since the decision was taken to liberalize capital movements; in relations between the EMS countries, there was an obvious inconsistency between stable exchange rates and the free movement of goods and capital on the one hand and autonomous national monetary policies on the other. Coordination has now become compulsory, part of the first stage in the implementation of Economic and Monetary Union that began on 1 July. Taking as their basis the analyses and forecasts made by the economic research formed a few months ago, which represents the first element of the future European central bank, the Committee of Governors will discuss monetary policy objectives for 1991 for the Community as a whole and for individual countries. The primary criterion will be economic and financial convergence between member countries. The construction of Europe is progressing, in no small measure thanks to our urging. The next exacting deadlines are already known. The United Kingdom's recent entry into the exchange rate mechanism of the EMS strengthens the process of economic and monetary integration, in which Italy wishes to be a full participant.

A monetary policy aimed uncompromisingly at reducing the inflation differential dovetails closely with maintenance of the lira within the present fluctuation band. Events during the months before the Gulf crisis and the economic and financial consequences of the crisis itself have demonstrated the advantages that flow from confidence in the stability of our currency. However, it is a confidence that only deeds can nurture.

On the other hand, the deterioration in the international economic climate, the persistence of higher prices for oil products and the consequent heightened risk of stagflation call for greater stringency in the shaping and conduct of economic policy in order to be in a stronger position to respond to the unpredictable train of future events.

Address by the Governor, Carlo A. Ciampi,

to the 33rd National Congress of the Italian Forex Club

Verona, 20 October 1990

1. The present condition of the Italian economy and its future prospects must be assessed in the light of Italy's decision to participate in the economic and monetary union of Europe. The decision is not just about economics; it also affects member countries in many other ways. Without indulging in nationalistic rhetoric, it can justifiably be said that Italy has an historic mission to accomplish, an important contribution to make to the construction of the European edifice; it knows that Europe's problems can be solved only in the context of political and economic union. In order to play an active part in the implementation of this grand design, in the creation of institutions to govern public affairs in the united Europe, Italy must complete the economic cure that was begun in the eighties.

The dual decision to maintain the lira within the narrow fluctuation band of the EMS and to remove the remaining restrictions on capital movements was a crucial step in Italy's implementation of the plan for Community integration that it had helped to formulate.

When I addressed you a year ago in Montecatini, we had already resolved to adopt the narrow margins of fluctuation, persuaded by the events I described on that occasion. The appreciation of the lira following the reform of the foreign exchange regulations in October 1988 had enabled us to simulate participation in the narrow band from the beginning of 1989 onwards without encountering tensions. By approving the Delors Plan, the European Summit in Madrid the following June gave substance to a plan for economic and monetary union, which had been drafted with the unanimous agreement of the central bank governors, and brought closer the day when it would be implemented.

Last October, however, the technical conditions in the relationships between the lira and the other currencies in the exchange rate mechanism were not such that we could convert our intention into action. In subsequent weeks we encouraged an orderly depreciation of the lira on the back of the appreciation of the Deutschemark, which was fostered by the rise in official interest rates in Germany.

In December the lira was at a level at which we could join the narrow band officially at a central rate against the Deutschemark that was close to the market rate; the lower intervention point of the previous band was kept unchanged, since to have lowered this would have signaled laxity, not rigour. At the same time, the currencies that were then weak could remain within the limits of their respective bands without our decision necessitating an adjustment in their central rates. Parliament's approval of the Finance Law made the start of the new year a favourable time to act. The Italian Government's proposal was welcomed by our Community partners as a sign of Italy's intention to combat the domestic causes of inflation and to restore order in the public finances.

The reform of the regulations on commercial and financial transactions with other countries, which hinges on the principle of freedom of activity, came fully into operation in mid-May.

By 1 July, the date of the commencement of Italy's six-month Presidency of the EEC and the launch of the first stage of monetary unification, Italy complied fully with the requirements regarding exchange controls.

The two decisions were made possible by the progress achieved in restoring the health of the economy; they also signify a commitment to complete that process. To catch up with the more stable economies in the Community and then to remain in step with them in order to be part of the economic and monetary union is an arduous task that requires monetary and exchange rate management and management of the economy to operate in tandem. The lira's participation in the narrow fluctuation band and the mobility of capital require rigorous economic policies to be pursued: intentions in this regard were also clearly expressed on the crucial fronts of incomes policy and budgetary policy at almost the same time as the adoption of the two foreign exchange measures. In January the two sides of industry concluded an agreement in which they declared that keeping inflation down to the Government's target had been adopted as a guiding principle for wage settlements in the private sector. In the multi-year economic planning document published in May, which focuses on the need to restore sound public finances, the Government reaffirmed its intention to achieve a budget surplus net of interest payments by 1991, to reverse the rising trend in the ratio of public debt to gross domestic product by 1993 and then to eliminate the deficit on current account, thus returning to observance of the "golden rule" that a budget deficit should at most be no greater than required to finance public investment. This planning document has been approved by Parliament.

The events that have occurred so far this year have demonstrated that the markets considered the dual decision to adopt narrow margins of fluctuation and to complete the liberalization of capital movements as neither reckless nor overambitious. The very importance of the decision, together with the more balanced cyclical condition of our economy, the stance of monetary and exchange rate policy and the actions taken in previous years at times of greatest pressure on the lira, lent credibility both to the action Italy had taken and to its determination to tackle the tasks that remained, namely to reduce inflation further, restore budgetary discipline and improve public services.

This credibility was the basis of the lira's strength in the foreign exchange markets in the months following the adoption of the narrow fluctuation band. The lira appreciated and remained at the upper limit of the band for a long period, even after the liberalization of exchange controls. The feared outflow of capital did not materialize; expectations of exchange rate stability stimulated substantial net inflows, even though the fall in domestic interest rates, which was fostered by those very inflows, was more rapid than in other countries. Since the beginning of the year the differential between lira and Deutschemark interbank rates has narrowed from 4.6 to 2.8 percentage points. The official reserves of convertible currencies have nevertheless increased by more than 30 trillion lire.

The Treasury was able to turn to the market for the funds it needed to cover the deficit, replace the substantial volume of maturing debt and meet the greater financial requirements that arise in the autumn. The average gross yield on Treasury bills fell from a peak of 13.7 per cent in November 1989 to 11.7 per cent in July. The Treasury was able to offer seven-year fixed rate bonds between May and July, thus breaching the five-year barrier for the first time for fifteen years.

Since it was fueled by the virtuous circle of confidence, falling inflation and inflows of capital from abroad, the downward trend in interest rates did not undermine monetary control.

The slowdown in demand and the propensity to invest in securities helped keep the growth in the domestic money supply within the 6-9 per cent target range. The expansion in credit gradually began to come back on course. The banks reduced their lending rates by much less than the fall in yields on government securities. In the first nine months of the year domestic lending to the non-state sector increased at an annual rate of 12.5 per cent, only slightly above the target set in the 1990 planning document and six points below the figure recorded in 1989. The slowdown was less marked if lending from abroad is also considered.

This state of the economy provided some room for manoeuvre in tackling the immediate impact of events in the Gulf. Market operators initially switched to short-term assets, causing medium-term interest rates to increase sharply. The Bank of Italy countered the worst excesses of the rise by not absorbing the resultant additional liquidity for some days at the beginning of September; the increase in medium-term rates rapidly fell back to a figure closer to those prevailing in other countries. The Bank's action was not a change in the direction of monetary policy but an intervention designed to maintain order in the important primary and secondary markets in government securities. By the last ten days of September bank liquidity had already returned to normal levels, and at the end of the month it registered one of the lowest figures of the year.

Since mid-August, owing to the Gulf crisis and the further weakening of the dollar, the lira has been near the centre of the band, closely grouped with all the other ERM currencies subject to the same margins of fluctuation; at the close yesterday the lira/DM exchange rate was the same as it had been on 5 January, the date of the decision to remain within the narrow band.

Events in the money and foreign exchange markets this year have confirmed our constant contention that, in a Community-wide system of fixed exchange rates and capital mobility, there is a need for monetary policy coordination to be strengthened; this will require both institutional changes to achieve a common stance in the various countries and even closer cooperation among the central banks in their day-to-day operations.

Two examples from the events of this year are of interest in this respect. In May, despite the reduction in the official discount rate, the lira reached its upper limit against the French franc; at the beginning of August it was in the same position against both the French franc and the Deutschemark. In May compulsory intervention to support the franc was combined with liquidity management operations coordinated with the Bank of France, leading in June to a reduction in the interest rate differential in favour of the lira. In August discretionary exchange market intervention was carried out in coordination with the Bundesbank as well as the Bank of France. This was the first time that the Bundesbank had participated in action to support the Deutschemark by means of intramarginal intervention in another Community currency, a technique we have long maintained to be useful in certain circumstances.

2. A sound foreign exchange and monetary position is not sufficient, however. We must bring about the improvements in underlying trends that can only be achieved through integrated management of the economy as a whole.

At the Bank of Italy's Annual General Meeting at the end of May I commented favourably on the fact that inflation was slowing down and the pressure of demand easing. I nonetheless warned that "Significant though it is, the progress to date is insufficient to eliminate the disparities between Italy and the other leading participants in the exchange rate mechanism as regards inflation and the public finances. An extraordinary effort is required". With the necessary effort in terms of fiscal and incomes policy still to come and little time left before the start of the single market, the state of the economy confirmed both the known and the foreseeable improvements and shortcomings.

The outbreak of the Gulf crisis caused a hiatus in the development of the world economy. It occurred in the eighth year of a period of uninterrupted growth in the industrial economies that the improvement in the terms of trade of manufactures helped to prolong. Until 2 August, with capacity utilization rates at a high level, the priority aim was to moderate the growth in demand by monetary policy means. This course was designed to curb inflation in the short run but also reflected concern lest saving should fail to match investment needs, which have been increased recently by the prospect of a reconstruction of the economies of Eastern Europe. It was recognized that extra saving would have to be provided mainly by the public sector, notably in countries with budget deficits on current account, such as Italy. The course generally adopted, albeit to a different extent in each country, was therefore to seek to return to a policy mix combining a fiscal policy that would curb consumption with a monetary policy that would ease the tight conditions then prevailing, as signaled by the persistence of real interest rates at a historically high level.

The sudden heightening of international tension increased uncertainty and caused the price of oil to rise to twice the level that experts judge would balance supply and demand in the long term under normal conditions. The response to these events has been to continue on the same economic policy course for the time being, notably as regards the restrictive stance of monetary policy. This response, which was confirmed at the annual meetings of the IMF and the World Bank in Washington at the end of September, is designed to control expectations. The resulting small additional rise in nominal interest rates counters the risk that the increase in oil prices, which hopefully will be reversible, will trigger an inflationary spiral. Apart from having an impact on the average price level and threatening to propagate inflation, the higher price of oil and the greater uncertainty reflected in the wide swings of share prices around a low level are also in danger of undermining confidence and thus provoking recession. The experience of the difficult years from 1973 to 1975 and from 1979 to 1982 demonstrates that inflation and stagnation can coexist when the system of relative prices suffers a severe shock.

At present, the industrial countries are not in the throes of a general recession, nor does one appear to be round the corner. However, the duration of the Gulf crisis and its effects, especially on the availability and price of oil products, are an unknown quantity hanging over the world economy. This uncertainty makes it advisable for countries to disregard scenarios based on extreme prices for oil when formulating their policies and to concentrate on strengthening the weak points of their economies: overcoming the weaknesses of individual countries will contribute to the common good.

In Italy's case, the sharp rise in the price of oil is a reminder of a basic truth. The twofold deficit (in the budget and in the external accounts), the twofold stock of debt (of the public sector and of the country as a whole), the shortcomings of services and the difficulty of establishing a dialogue between the social partners that pays more heed to economic compatibilities are all weaknesses that are aggravated by the unresolved susceptibility to tensions in the international energy market. No small part of the Italian economy's good performance since 1985-86 has been due to favourable terms of trade. Too little advantage has been taken of these conditions to reduce the imbalances in the public finances, to implement an energy policy based on rigorous economies and a diversification of sources and to remove the structural factors that make the Italian economy one of those most exposed to external shocks.

Italy occupies an intermediate position in the slowdown of the world economy: the pace of growth has declined less than in the United States and the United Kingdom, but more than in Japan and Germany, where the growth rate has remained high.

Even before the Gulf crisis affected the world economy, negative signs were visible in Italy: stagnant industrial output, persistent deficits on the external current account and, despite the support provided by the exchange rate, slow progress in reducing the rate of inflation as a result of stubborn domestic factors.

The continued strength of the services sector has mitigated the stagnation in industry, but the weakening of overall economic activity that started in the first quarter is continuing and the events of August have dashed any hope of a recovery in the autumn.

Domestic demand is reflecting slower growth in expenditure on both consumer durables and investment goods. Now that the rationalization drive of the eighties has run its course, the expansion of plant capacity is more susceptible to the uncertainty surrounding aggregate demand and corporate profitability.

Foreign demand has remained moderately strong. The average twelve-month rate of growth in the seasonally adjusted volume of exports at constant prices dropped from 9 per cent in 1989 to 5 per cent in the first seven months of this year, though this was less than the 6.5 per cent rate of increase in imports.

The persistent inflation differential with respect to our main competitors is tending to erode the competitiveness of Italian products. In September the real exchange rate of the lira vis-à-vis the other ERM currencies was 2.5 per cent higher than at the beginning of 1989. The depreciation of the dollar has greatly intensified the competition in markets for goods priced in the US currency, with worrying consequences for some branches of industry. Exporting firms have countered these developments, in part by accepting lower profit margins: in the first seven months of this year export prices were 2 per cent higher than in the corresponding period in 1989 – two points less than the rise recorded for products sold on the domestic market.

The two oil crises of the seventies tightened the external constraint on the growth of the Italian economy: the terms of trade deteriorated by 30 per cent between 1972 and 1985. Less intensive energy consumption and the refound ability of firms to adapt to changes in the composition of world demand helped to ease the constraint. By producing a 15 per cent improvement in the terms of trade in a single year, the 1986 oil "counter-shock" provided considerable scope for adjustment, with the trade balance on an *fob* basis recording a surplus equivalent to nearly 1 per cent of GDP.

This room for manoeuvre was rapidly reduced by the profound change that occurred in the invisible items of the current account. These items no longer served to offset the imbalance in Italy's merchandise trade and the external constraint has consequently tightened.

Italy's balance on trade in services, investment income and unrequited transfers worsened by the equivalent of 2.5 percentage points in relation to GDP during the eighties. The deterioration was due to the erosion of the surplus on tourism, the rapid growth in the net outflow of income generated by the financial assets and liabilities of non-residents and the increase in government transfers abroad. Italy's net external debt at the end of last year, after taking account of gold reserves valued at 40 trillion lire, amounted to 54 trillion lire.

The scope for additional borrowing in the international financial markets must not obscure the need to halt the rise in the foreign debt by bringing Italy's trade in goods and services back into balance.

This has not occurred in 1990. In the first eight months an improvement in the terms of trade resulted in a 4 trillion lira reduction in the merchandise deficit compared with the same period in 1989. This will permit the trade account on an *fob* basis to be nearly in balance at the end of the year, despite the subsequent rise in the price of oil imports. The deficit on services and transfer payments, however, will be larger than the already pessimistic forecast the Bank of Italy made a few weeks ago. The data collected under the new procedures introduced in parallel with the lifting of exchange controls show that the invisibles deficit amounted to more than 11 trillion lire in the first six months of this year, a deterioration of over 6 trillion compared with the first half of 1989, of which nearly 1 trillion is attributable to tourism and 2 trillion to investment income. In the light of these results and the increases in the price of oil that have already occurred, it cannot be ruled out that the ratio of the 1990 current account deficit to GDP will exceed the 1.2 per cent recorded last year.

Between July 1989 and June 1990 the cost-of-living measure of inflation decreased by nearly one and a half percentage points, from 7 to 5.6 per cent.

Other things being equal, the fall in the price of oil and the depreciation of the dollar would have produced a reduction of about twice that size. The fact that the rate actually slowed by less than one and a half points is evidence of the inflationary pressure exerted by domestic factors. The small improvement in manufacturing productivity in the first half of 1990 was coupled with a rapid rise in nominal wages, so that the increase in unit labour costs compared with the first half of 1989 remained above 6 per cent. The prices of services that are not subject to control continued to rise at rates averaging about 8 per cent. Prices also came under pressure from the growth in consumption: earnings increased much faster than forecast, especially in the public sector. The need to narrow the gap between the objective for the budget deficit and the probable outturn made it necessary to raise indirect taxes, with inflationary repercussions.

The already slow decline in inflation reversed in August under the impact of higher oil prices. But for this factor, the annual rate of inflation at the end of the year could have been expected to fall to around 5.5 per cent, which would still have been one percentage point above the target rate. As a result of the Gulf crisis, the forecast has been raised to more than 6 per cent. No dent has been made this year in the inflation differential vis-à-vis the other countries participating in the Exchange Rate Mechanism.

3. As far as Italy is concerned, the experience of the last decade has taught us that the fight against inflation is an essential prerequisite for continued growth, and cannot be effectively traded off against the danger of recession.

If we examine the conditions in which we operate and which we have helped create, we must continue to rely on the fundamental contribution that the strength of the lira makes in the fight against inflation. As we have seen, for domestic reasons the rate of price inflation in Italy remains higher than in more stable countries. The nominal exchange rate of the lira is now broadly the same as it was two years ago against the Deutschemark and 16 per cent higher against the dollar. At the same time, the strong expansion in demand in Germany as a result of the unification of that country represents an important opportunity for our exporters.

The exchange rate constraint, which has been reinforced by adherence to the narrow fluctuation band, is not simply a technical constraint; it is the linchpin of our entire policy of adjustment, convergence and participation in the construction of Europe. In order to avoid importing inflation from abroad while keeping our exports competitive, we must bring the rise in domestic unit costs down to the rate prevailing in competitor countries, especially Germany and France.

Hence the need to contain nominal increases in wages and salaries; hence also the need to boost productivity by means of investment, technological innovation and a more flexible use of labour, especially in services and the other sectors less exposed to international competition. It is not a question of making room for an increase in companies' unit profits; in domestic as well as international markets profits are limited directly by the exchange rate of the lira. Balanced income distribution should be based on real values, net of inflation; to pursue this objective on the basis of nominal values ultimately leads to a defeat for employers and trade unions alike as well as for the country as a whole, which will find itself with less growth, and hence less income to distribute, and with higher inflation.

In the present situation the adjustment of wages and salaries to take account of price increases must not transform what is probably no more than a temporary shift in the relative prices of primary products into a resurgence of inflation. The "oil tax" must not give rise to a futile wage/price spiral; it should be distributed fairly while maintaining monetary stability.

To complete the final difficult step in the convergence with the more stable Community currencies by relying on the strength of the lira entails first defining and finally creating, in conjunction with the other member countries of the Community, the conditions for the second stage of the plan for monetary and economic union. This will be the stage of institutional changes, which will make it possible to progress from the coordination of national monetary policies to the establishment of a common policy and enable the ecu to become the true common currency capable of replacing each of the national currencies.

The ecu is already a reality. In the space of a few years it has become one of the most important monetary units in the international financial markets; it is used as an intervention instrument in the foreign exchange market and as a means of reserve diversification. A number of proposals that would give the ecu a specific role in the transition towards the final stage of EMU were put forward in the Delors Committee and subsequently in other fora; choices must be made that will allow the public and private ecus to interact constructively. Public action must not be aimed at artificially promoting an abstract currency. If the ecu is to establish itself fully in the markets, however, it will be necessary for market participants to be not only convinced of its stability but also certain that it will become the sole currency of the Community. The governments of the member countries should make a formal declaration to that effect as soon as possible.

At a time when the shape of monetary and economic union is being defined and the statutes of the European central bank are being drawn up, there is no reason for not declaring officially that when this institution comes into operation there will be a single currency, and that that currency will be the ecu.

The United Kingdom's recent entry into the exchange rate mechanism is a positive development that satisfies a specific condition of the first stage of monetary union. Moreover, as Italy's experience confirms, entry should strengthen the UK economy and enhance the stability and capacity of the Community by adding the weight of the British currency and economy.

In the present state of the Italian economy, which has been made more precarious by uncertainty about the price of oil, the commitments undertaken in connection with EMU require all components of economic policy, and especially budgetary policy, to be consistent, rigorous and farsighted.

Other Community countries, such as Belgium, Ireland and Denmark, whose public finances were in a similar state to ours until only a few years ago, have already succeeded in restoring equilibrium; they have brought their budget deficits back to normal levels and have set in motion the virtuous circle of a declining public debt as a proportion of national product. Italy has made much less progress — we have yet to trigger the virtuous circle.

A few days ago, in presenting evidence to the Budget Committee of the Chamber of Deputies, I had an opportunity to make a number of remarks on the basis of an initial analysis of the budget proposals for 1991 in the context of the economic and financial situation both at home and abroad. I emphasized the need for the 1991 budget measures not only to conform in quantitative terms with the objectives indicated in the planning document published in May, but also actually to bear down on public spending. It is essential that in the next few years we avoid the need for adjustments in the underlying borrowing requirement on a scale comparable to that foreseen for the 1991 budget, in which compliance with the borrowing target of 132 trillion lire entails budgetary measures involving 48 billion lire.

As well as the need to influence underlying budgetary trends, there is a need to improve the standard of services provided by public institutions in order to reduce the disadvantage at which Italian producers are placed by comparison with their international competitors.

The present stance of monetary and exchange rate policy will be maintained. The target range for the growth in the money supply in 1991 has been set at 5-8 per cent and credit to the economy is expected to increase by not more than 10 per cent. These limits are lower than those for 1990 and accord with the priority the Government's programme gives to bringing inflation down towards the levels prevailing in the more stable EMS economies.

The first stage of economic and monetary union came into operation in July. When the objectives for 1991 are set, the Committee of Central Bank Governors will carry out their first joint evaluation of whether national policies are compatible with the common aims of safeguarding monetary stability within the area as a whole and fostering economic convergence.

As well as the need to set a date for the start of the second stage of EMU, agreement must be reached on the criteria and rules that will constrain member countries to pursue a strict fiscal policy. In the case of Italy, the restoration of sound public finances, which is necessary for domestic reasons, is also becoming an urgent and fundamental necessity on international grounds.

A monetary policy based firmly on coordinated regulation of the money supply within the Community and reinforced by maintenance of the lira within the narrow band of the EMS makes sense in that it ties in with Italy's decision in favour of European integration; it is necessary and appropriate in the context of that decision. The strictness of the management of the money supply and the exchange rate by the Bank of Italy does not conflict with other objectives and aspects of the management of the economy and the country in general.

Central bank autonomy, a priceless attribute that cannot be relinquished, is instrumental to the achievement of the quintessential policy objective of the central bank, namely monetary stability. Today it is also instrumental in the construction of European Union, endorsed by the constitutional organs of government. The Bank of Italy operates within the bounds set by these fundamental points of reference. The indispensable consistency between regulation of the currency and the restoration of sound public finances therefore can, and must, be achieved.

The state of the public finances is the handicap afflicting our economy; it jeopardizes development, makes financial equilibrium precarious and undermines the credibility of the lira in its essential function as a reliable measure of present and future values.

A country that has been able to achieve the progress that is evident from my remarks can, and must, take the measures, however unpopular they may be at the time, that will enable it to cast off its shackles, to enhance its development potential and to achieve full parity with the leading countries.

Appendix

Statistical tables

In the following tables "Germany" refers to the pre-unification "Federal Republic of Germany".

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 *(% changes on previous period; seasonally adjusted data)*			
1984	6.8	5.1	3.3	1.3	1.8	3.0	6.3
1985	3.4	4.9	1.9	1.9	3.8	2.6	4.8
1986	2.7	2.5	2.3	2.5	3.6	2.5	3.3
1987	3.4	4.6	1.7	2.2	4.8	3.0	4.0
1988	4.5	5.7	3.6	3.8	4.2	4.2	4.4
1989	2.5	4.9	4.0	3.6	2.1	3.2	3.0
1989 – 1st qtr.	0.9	1.8	2.6	1.5	0.2	0.7	1.2
2nd "	0.4	–0.8	0.2	0.7	0.2	0.8	0.3
3rd "	0.4	2.9	–0.1	0.5	0.5	0.8	0.8
4th "	0.1	0.8	1.0	0.7	0.7	0.5	0.6
1990 – 1st qtr.	0.4	2.7	3.4	0.7	0.5	0.9	0.5
2nd "	0.3	(0.9)	(–0.5)	(0.1)	(1.0)	....	–0.4
				GNP deflator *(% changes on previous period; seasonally adjusted data)*			
1984	3.7	1.2	2.0	7.4	4.6	11.4	3.2
1985	3.0	1.4	2.2	5.8	5.6	8.9	2.6
1986	2.6	1.9	3.1	5.2	3.5	7.7	2.4
1987	3.1	–0.4	1.9	2.7	5.0	5.9	4.8
1988	3.4	0.6	1.5	3.1	6.4	6.2	4.8
1989	4.0	1.5	2.4	3.4	6.9	6.3	4.9
1989 – 1st qtr.	1.0	0.3	0.9	0.8	1.6	1.7	1.2
2nd "	1.0	1.2	0.4	0.6	1.8	1.3	1.4
3rd "	0.8	–0.2	0.6	1.0	0.6	1.2	0.8
4th "	0.9	0.9	0.4	1.6	1.8	2.3	0.7
1990 – 1st qtr.	1.2	–0.4	1.6	–0.2	1.7	1.7	0.8
2nd "	1.1	(0.9)	(1.2)	....	(0.7)	....	0.8
				Current account balance *(billions of dollars)*			
1984	–99.0	35.0	9.8	–0.9	2.3	–2.4	2.1
1985	–122.3	49.2	17.0	..	4.0	–3.7	–1.5
1986	–145.4	85.8	40.1	2.4	–0.1	2.7	–7.3
1987	–162.3	87.0	46.1	–4.4	–7.0	–1.5	–6.9
1988	–128.9	79.6	50.5	–3.5	–27.0	–5.9	–8.2
1989	–110.0	57.2	55.5	–3.9	–31.3	–10.5	–14.1
1989 – 1st qtr.	–27.1	16.1	16.8	–0.3	–7.5	–3.7	–4.6
2nd "	–28.6	14.3	14.0	–0.8	–8.4	–2.2	–3.9
3rd "	–27.6	15.0	11.1	–0.3	–10.6	–2.5	–2.1
4th "	–26.7	11.8	13.6	–2.5	–4.8	–2.1	–3.5
1990 – 1st qtr.	(–21.7)	(12.3)	(17.0)	(–1.6)	(–8.0)	(–3.8)	(–6.6)
2nd "	(–21.8)	(8.2)	(11.3)	(–1.5)	....	(–4.8)	(–3.4)

Table a2

Industrial production

(% changes on previous period: seasonally adjusted data)

	US	Japan	Germany	France	UK	Italy	Canada
1984	9.4	9.3	2.9	1.7	0.3	3.4	12.1
1985	1.7	3.7	4.9	0.7	5.3	1.2	5.6
1986	1.0	–0.2	1.8	1.1	2.3	3.6	–0.1
1987	4.9	3.4	0.3	1.9	3.3	3.9	5.6
1988	5.4	9.3	3.7	4.1	3.7	6.0	6.2
1989	2.6	6.0	4.8	3.7	0.5	3.1	1.0
1988 – 3rd qtr.	1.5	2.0	2.0	2.7	0.7	1.2	1.0
4th "	0.7	1.8	0.8	–0.1	–0.2	1.2	–0.7
1989 – 1st qtr.	0.7	2.7	1.0	0.6	–0.2	–0.1	0.4
2nd "	0.7	0.6	0.9	2.0	–0.5	0.8	0.8
3rd "	–0.3	0.2	2.3	0.6	0.9	1.2	–0.2
4th "	0.1	0.7	0.4	–0.5	0.1	1.5	–0.5
1990 – 1st qtr.	0.2	0.8	1.5	–0.6	–0.2	–1.6	–1.2
2nd "	1.0	2.1	0.2	1.4	2.4	0.5	....
3rd "	(0.6)	....	....	....	....	....	....
1989 – Sept.	0.0	–0.5	–0.2	–1.2	–0.2	1.5	0.3
Oct.	–0.4	0.3	0.0	0.4	–0.1	–0.1	–1.3
Nov.	0.4	0.3	0.1	0.4	–0.5	0.2	0.6
Dec.	0.4	0.2	1.2	–1.0	0.6	1.8	0.4
1990 – Jan.	–1.0	0.0	1.1	1.1	–0.8	–4.5	–1.5
Feb.	0.9	0.1	–1.3	–2.0	–0.5	2.3	–0.3
Mar.	0.4	1.5	1.3	0.6	2.0	0.8	0.3
Apr.	–0.1	–0.7	–2.4	1.4	0.9	–0.9	–0.4
May	0.5	2.6	3.4	0.2	–0.5	0.4	0.2
June	0.4	0.1	0.1	0.4	2.1	–0.5	....
July	0.0	1.5	1.5	....	....	....	....
Aug.	(0.1)	(0.3)	(–0.3)	....	....	....	....
Sept.	(0.2)	....	....	....	....	....	....

Table a3

Consumer prices

(% changes on corresponding period)

	US	Japan	Germany	France	UK	Italy	Canada
1984	4.3	2.3	2.4	7.7	5.0	10.8	4.3
1985	3.5	2.0	2.2	5.8	6.0	9.2	3.9
1986	1.9	0.4	–0.1	2.6	3.4	5.9	4.2
1987	3.7	–0.2	0.2	3.3	4.1	4.7	4.4
1988	4.1	0.5	1.3	2.7	4.9	5.0	4.0
1989	4.8	2.2	2.8	3.5	7.8	6.3	5.0
1988 – 3rd qtr.	4.1	0.5	1.3	2.9	5.5	5.0	4.0
4th "	4.3	1.0	1.7	3.0	6.5	5.1	4.0
1989 – 1st qtr.	4.8	0.9	2.4	3.4	7.7	5.9	4.5
2nd "	5.2	2.8	2.9	3.6	8.2	6.5	4.9
3rd "	4.6	2.7	2.8	3.4	7.7	6.4	5.4
4th "	4.6	2.6	3.0	3.6	7.6	6.3	5.2
1990 – 1st qtr.	5.2	3.5	2.7	3.4	7.8	6.5	5.4
2nd "	4.6	2.5	2.3	3.1	9.6	6.1	4.6
3rd "	(5.4)	....	(2.7)	(3.4)	(10.4)	....	....
1989 – Sept.	4.3	2.6	2.9	3.3	7.6	6.3	5.4
Oct.	4.6	2.9	3.1	3.6	7.3	6.4	5.2
Nov.	4.7	2.3	2.9	3.6	7.7	6.3	5.2
Dec.	4.6	2.6	3.0	3.6	7.7	6.3	5.1
1990 – Jan.	5.2	3.2	2.7	3.4	7.7	6.6	5.5
Feb.	5.3	3.8	2.7	3.3	7.5	6.5	5.5
Mar.	5.2	3.7	2.7	3.4	8.1	6.3	5.3
Apr.	4.7	2.6	2.3	3.1	9.4	6.2	5.0
May	4.3	2.6	2.3	3.0	9.7	6.0	4.4
June	4.7	2.1	2.3	3.0	9.8	6.1	4.3
July	4.8	2.2	2.4	3.0	9.7	6.2	4.1
Aug.	(5.5)	(2.9)	(2.8)	(3.5)	(10.6)	....	(4.1)
Sept.	(6.0)	....	(3.0)	(3.8)	(10.9)	....	....

Table a4

Wholesale prices

(% changes on corresponding period)

	US	Japan	Germany	France	UK	Italy	Canada
1984	2.4	–0.3	2.8	8.8	6.1	10.3	4.5
1985	–0.5	–1.1	0.5	4.4	5.5	7.7	2.7
1986	–2.9	–9.1	–7.4	–2.5	4.3	0.2	0.8
1987	2.6	–3.8	–3.8	0.3	3.9	3.0	2.7
1988	4.0	–1.0	1.1	5.1	4.5	3.6	4.3
1989	5.0	2.6	5.1	5.8	5.1	5.9	2.3
1988 – 3rd qtr.	4.2	–0.9	1.4	6.1	4.8	3.7	4.1
4th "	4.2	–1.4	2.7	7.1	4.9	4.3	3.7
1989 – 1st qtr.	5.9	0.2	5.4	9.0	5.2	5.9	3.6
2nd "	5.9	3.2	6.1	7.9	5.0	6.3	3.0
3rd "	4.1	3.1	5.0	4.8	5.1	5.5	1.9
4th "	4.0	3.7	4.0	1.9	5.2	5.8	0.8
1990 – 1st qtr.	3.2	3.7	0.8	–1.8	5.4	4.9	0.2
2nd "	1.2	1.8	–0.3	....	6.3	3.7	0.2
3rd "	(3.1)	....	....	....	....	....	....
1989 – Sept.	4.0	3.3	5.4	....	5.2	5.2	1.6
Oct.	4.3	3.3	5.0	....	5.1	6.0	1.3
Nov.	4.1	3.8	3.8	....	5.2	5.6	0.7
Dec.	3.6	3.9	3.3	....	5.3	5.7	0.5
1990 – Jan.	4.0	3.7	1.4	....	5.2	5.3	–0.1
Feb.	3.3	3.5	0.5	....	5.3	4.9	0.6
Mar.	2.4	3.9	0.5	....	5.6	4.4	0.1
Apr.	1.5	2.7	–0.2	....	6.2	4.0	0.1
May	1.2	1.7	–0.2	....	6.3	3.6	0.3
June	1.1	0.9	–0.4	....	6.3	3.4	0.2
July	1.3	0.8	0.1	....	6.1	....	....
Aug.	(3.4)	(1.1)	(1.2)	....	....	....	....
Sept.	(4.6)	....	....	....	....	....	....

Table a5

Short-term interest rates

	US	Japan	Germany	France	UK	Italy	Canada
				Official reference rates *(end-of-period data)*			
1985	7.50	5.00	4.00	8.75	11.50	15.00	9.49
1986	5.50	3.00	3.50	7.25	11.00	12.00	8.49
1987	6.00	2.50	2.50	7.75	8.50	12.00	8.66
1988	6.50	2.50	3.50	7.75	13.00	12.50	11.17
1989 – Sept.	7.00	3.25	5.00	8.75	14.00	13.50	12.47
Oct.	7.00	3.75	6.00	9.50	15.00	13.50	12.43
Nov.	7.00	3.75	6.00	9.50	15.00	13.50	12.47
Dec.	7.00	4.25	6.00	10.00	15.00	13.50	12.47
1990 – Jan.	7.00	4.25	6.00	10.00	15.00	13.50	12.29
Feb.	7.00	4.25	6.00	10.00	15.00	13.50	13.25
Mar.	7.00	5.25	6.00	10.00	15.00	13.50	13.38
Apr.	7.00	5.25	6.00	9.50	15.00	13.50	13.77
May	7.00	5.25	6.00	9.50	15.00	12.50	14.05
June	7.00	5.25	6.00	9.50	15.00	12.50	13.90
July	7.00	5.25	6.00	9.50	15.00	12.50	13.59
Aug.	7.00	6.00	6.00	9.50	15.00	12.50	13.01
Sept.	7.00	6.00	6.00	9.50	15.00	12.50	12.61
				Money market rates *(period averages)*			
1986	5.98	5.01	4.60	7.70	10.93	11.46	8.24
1987	5.78	3.86	3.99	8.27	9.72	10.74	8.41
1988	6.67	4.05	4.28	7.94	10.34	11.06	10.94
1989	8.11	5.33	7.07	9.40	13.89	12.55	12.22
1989 – Sept.	7.75	5.56	7.36	9.35	14.03	12.99	12.23
Oct.	7.64	6.06	8.08	10.02	15.03	13.30	12.17
Nov.	7.70	6.61	8.23	10.51	15.11	13.73	12.21
Dec.	7.63	6.67	8.05	10.89	15.12	13.37	12.22
1990 – Jan.	7.64	6.79	8.25	11.33	15.16	12.99	12.34
Feb.	7.74	7.00	8.26	11.05	15.11	12.63	13.16
Mar.	7.90	7.38	8.43	10.67	15.29	13.02	13.26
Apr.	7.77	7.29	8.22	10.02	15.22	13.00	13.55
May	7.74	7.28	8.29	9.81	15.15	11.91	13.67
June	7.73	7.30	8.27	10.07	14.97	11.28	13.58
July	7.62	7.53	8.20	10.05	14.95	11.58	13.23
Aug.	7.45	7.87	8.40	10.19	15.00	12.08	12.67
Sept.	7.36	8.27	8.41	10.31	14.92	11.98	12.40

Table a6

Long-term interest rates and share price indices

(period averages)

	US	Japan	Germany	France	UK	Italy	Canada
				Bond rates			
1986	7.68	4.94	5.92	8.44	9.87	11.47	9.23
1987	8.38	4.21	5.84	9.43	9.48	10.73	10.34
1988	8.84	4.27	6.11	9.06	9.36	11.34	10.36
1989	8.50	5.05	7.03	8.79	9.58	13.01	9.69
1989 – Sept.	8.19	5.12	7.10	8.61	9.62	13.27	9.91
Oct.	8.01	5.49	7.30	8.88	9.81	13.53	9.54
Nov.	7.87	5.65	7.60	9.06	9.99	13.91	9.80
Dec.	7.84	5.87	7.60	9.14	9.96	13.92	9.69
1990 – Jan.	8.21	6.64	7.90	9.52	10.28	13.92	10.04
Feb.	8.47	6.92	8.70	9.95	10.72	14.06	10.64
Mar.	8.59	7.36	8.90	9.97	11.46	14.08	10.91
Apr.	8.79	7.24	8.90	9.65	11.77	13.86	11.54
May	8.76	6.70	8.90	9.62	11.49	13.62	10.86
June	8.48	7.06	9.00	9.76	11.01	12.96	10.72
July	8.47	7.48	8.70	9.61	11.03	12.91	10.77
Aug.	8.75	8.19	9.00	10.17	(11.61)	13.47	10.83
Sept.	8.89	8.62	9.10	(10.45)	(11.59)	13.28	11.54
				Share price indices (1975=100)			
1986	277.36	424.38	308.25	490.30	587.45	1,057.02	301.06
1987	336.45	627.72	267.83	543.92	766.90	1,005.17	356.77
1988	311.92	683.75	220.77	461.42	699.55	810.37	330.28
1989	379.06	824.26	283.80	668.05	834.11	1,001.84	380.15
1989 – Sept.	407.81	842.57	311.48	740.35	904.79	1,115.61	394.30
Oct.	407.89	855.94	300.31	731.58	834.56	1,044.30	391.86
Nov.	399.46	874.54	294.68	702.75	832.68	1,023.38	394.28
Dec.	409.27	917.71	321.80	745.79	882.92	1,049.21	396.98
1990 – Jan.	399.11	885.22	350.28	731.45	889.87	1,081.28	370.44
Feb.	387.99	860.02	358.86	694.60	861.36	1,040.91	368.67
Mar.	397.84	770.51	366.91	704.06	838.87	1,044.16	363.95
Apr.	397.06	694.16	370.06	744.26	817.27	1,081.33	334.09
May	411.24	759.33	363.33	759.29	828.52	1,119.12	358.20
June	423.14	763.57	361.85	744.42	879.52	1,172.14	354.39
July	422.72	750.74	377.83	730.40	873.01	1,143.11	356.11
Aug.	388.34	660.69	333.90	643.94	807.76	992.40	334.63
Sept.	370.33	582.45	297.90	594.84	757.75	916.36	....

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**				
1986	6.71	5.03	4.51	10.88	12.69	6.79	4.91	4.55	10.63	12.06
1987	7.07	4.15	3.92	9.64	10.79	7.49	4.20	4.13	9.74	11.03
1988	7.85	4.40	4.18	10.25	10.80	8.28	4.49	4.48	10.55	11.18
1989	9.15	5.33	6.97	13.83	12.01	9.17	5.41	7.16	13.54	12.22
1989 – Sept.	8.85	5.58	7.33	14.00	12.09	8.78	5.51	7.45	13.75	12.23
Oct.	8.65	6.08	7.93	14.95	12.24	8.46	6.05	7.88	14.57	12.28
Nov.	8.41	6.63	8.13	15.07	12.40	8.15	6.64	8.19	14.46	12.44
Dec.	8.40	6.62	8.12	15.03	12.69	8.07	6.54	8.19	14.56	12.67
1990 – Jan.	8.22	6.92	8.25	15.09	12.55	8.33	7.06	8.55	14.88	12.73
Feb.	8.24	7.10	8.36	15.04	12.80	8.53	7.31	8.94	15.06	13.02
Mar.	8.37	7.45	8.24	15.21	12.42	8.79	7.72	9.07	15.54	13.00
Apr.	8.45	7.31	8.14	15.14	11.79	8.91	7.60	8.85	15.59	12.59
May	8.36	7.24	8.12	15.08	11.61	8.80	7.38	8.80	15.27	12.04
June	8.22	7.29	8.10	14.92	11.09	8.45	7.34	8.72	14.73	11.53
July	8.10	7.57	8.15	14.86	11.04	8.23	7.67	8.62	14.49	11.43
Aug.	7.99	7.89	8.35	14.88	11.28	8.11	8.10	8.83	14.51	11.81
Sept.	8.07	8.28	8.36	14.86	10.38	8.18	8.62	8.90	14.37	11.57
	3-month US dollar premium (–)/discount (+)					**12-month US dollar premium (–)/discount (+)**				
1986		1.68	2.20	–4.17	–5.98		1.88	2.24	–3.84	–5.27
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
1989		3.83	2.18	–4.68	–2.86		3.76	2.02	–4.37	–3.05
1989 – Sept.		3.27	1.52	–5.15	–3.24		3.27	1.33	–4.97	–3.45
Oct.		2.57	0.72	–6.30	–3.59		2.41	0.58	–6.11	–3.82
Nov.		1.78	0.28	–6.66	–3.99		1.51	–0.04	–6.31	–4.29
Dec.		1.78	0.28	–6.63	–4.29		1.53	–0.12	–6.49	–4.60
1990 – Jan.		1.30	–0.03	–6.87	–4.33		1.27	–0.22	–6.55	–4.40
Feb.		1.14	–0.12	–6.80	–4.56		1.22	–0.41	–6.53	–4.49
Mar.		0.92	0.13	–6.84	–4.05		1.07	–0.28	–6.75	–4.21
Apr.		1.14	0.31	–6.69	–3.34		1.31	0.06	–6.68	–3.68
May		1.12	0.24	–6.72	–3.25		1.42	0.00	–6.47	–3.24
June		0.93	0.12	–6.70	–2.87		1.11	–0.27	–6.28	–3.08
July		0.53	–0.05	–6.76	–2.94		0.56	–0.39	–6.26	–3.20
Aug.		0.10	–0.36	–6.89	–3.29		0.01	–0.72	–6.40	–3.70
Sept.		–0.21	–0.29	–6.79	–2.31		–0.44	–0.72	–6.19	–3.39

Table a8

Lira exchange rates and the price of gold

(period averages)

	Lire per unit of currency								Gold
	US dollar	Japanese yen	Deutsche-mark	French franc	Pound sterling	Swiss franc	SDR	Ecu	(dollars per ounce)
1984	1,756.5	7.3905	617.27	201.08	2,339.8	747.54	1,800.4	1,380.9	308.30
1985	1,909.7	8.0240	650.26	213.08	2,462.5	780.26	1,939.0	1,447.8	327.00
1986	1,489.6	8.8749	686.98	215.07	2,185.5	830.61	1,747.5	1,461.9	390.90
1987	1,296.8	8.9828	721.65	215.74	2,123.7	870.44	1,676.9	1,495.0	484.10
1988	1,302.9	10.1594	741.17	218.51	2,315.4	889.68	1,751.0	1,537.3	410.25
1989	1,373.6	9.9659	729.71	215.07	2,248.6	838.96	1,760.6	1,509.6	401.00
1988 – 3rd qtr.	1,385.9	10.3574	742.30	219.21	2,348.5	885.63	1,797.4	1,542.2	396.70
4th "	1,317.6	10.5171	742.11	217.33	2,356.0	880.47	1,770.7	1,539.2	410.25
1989 – 1st qtr.	1,357.5	10.5641	733.49	215.67	2,371.1	858.42	1,785.8	1,527.3	383.20
2nd "	1,410.8	10.1954	728.39	215.13	2,287.4	830.43	1,789.5	1,513.1	373.00
3rd "	1,386.6	9.7395	720.60	213.06	2,212.4	835.10	1,747.1	1,492.8	366.50
4th "	1,338.1	9.3487	736.72	216.49	2,120.0	831.73	1,717.7	1,505.2	401.00
1990 – 1st qtr.	1,254.9	8.4842	741.80	218.72	2,077.6	833.07	1,650.9	1,511.7	368.25
2nd "	1,232.3	7.9465	734.49	218.36	2,065.9	854.80	1,616.0	1,507.8	352.40
3rd "	1,177.4	8.1138	738.52	220.24	2,191.1	880.78	....	1,530.1	408.40
1989 – Sept.	1,405.3	9.6759	719.76	213.13	2,206.1	832.23	1,752.5	1,491.9	366.50
Oct.	1,369.2	9.6296	733.59	216.14	2,173.2	839.51	1,741.9	1,506.2	375.30
Nov.	1,343.5	9.3545	734.52	215.99	2,112.4	829.85	1,716.0	1,502.4	409.09
Dec.	1,293.6	8.9987	743.13	217.51	2,063.8	824.41	1,684.1	1,507.3	401.00
1990 – Jan.	1,262.5	8.7021	745.96	219.14	2,084.1	831.97	1,664.6	1,515.5	415.05
Feb.	1,244.0	8.5433	741.97	218.52	2,109.2	835.83	1,650.3	1,514.6	407.85
Mar.	1,257.3	8.2125	737.48	218.48	2,042.3	831.65	1,636.6	1,505.4	368.25
Apr.	1,239.7	7.8262	734.53	218.67	2,029.2	832.82	1,613.2	1,502.4	367.75
May	1,221.5	7.9596	734.77	218.22	2,052.3	861.56	1,610.3	1,506.6	363.05
June	1,237.1	8.0417	734.16	218.23	2,113.4	867.61	1,626.0	1,513.8	352.40
July	1,201.7	8.0626	732.65	218.40	2,170.5	862.27	1,615.1	1,517.3	372.30
Aug.	1,158.4	7.8580	737.14	219.67	2,200.8	884.70	1,595.3	1,529.1	387.75
Sept.	1,171.6	8.4516	746.48	222.89	2,202.9	896.84	....	1,545.3	408.40

Table a9

Nominal effective exchange rates

(indices, 1980=100)

	US	Canada	Japan	Germany	France	UK	Italy	Switzerland
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	90.0	93.2	188.5	117.1	78.1	82.0	71.7	125.4
1989	93.5	98.4	179.3	116.1	77.3	79.5	72.3	118.8
1988 – 3rd qtr.	93.0	95.1	184.3	115.7	77.6	81.7	70.9	123.2
4th "	89.1	94.9	193.1	116.5	77.2	82.9	71.4	123.3
1989 – 1st qtr.	90.7	96.8	190.6	115.3	76.7	83.3	71.6	120.3
2nd "	94.6	98.0	180.7	115.1	76.9	80.5	72.0	116.9
3rd "	95.1	99.1	174.8	115.4	77.2	78.8	73.0	119.2
4th "	93.6	99.8	171.2	118.6	78.5	75.6	72.8	118.8
1990 – 1st qtr.	92.8	98.0	162.0	121.3	80.1	75.7	73.3	120.6
2nd "	93.5	99.2	153.3	121.1	80.6	76.0	73.9	124.9
3rd "	89.0	99.2	160.1	121.0	80.9	80.9	73.4	128.2
1989 – Sept.	96.2	99.5	172.4	115.2	77.2	78.4	73.0	118.8
Oct.	94.2	99.5	173.9	117.1	78.0	77.0	72.4	119.2
Nov.	94.0	99.9	171.1	118.2	78.4	75.4	72.9	118.7
Dec.	92.5	100.1	168.5	120.5	79.3	74.2	73.0	118.4
1990 – Jan.	92.1	98.8	165.1	121.4	79.9	75.4	73.0	119.9
Feb.	92.3	96.6	164.1	121.2	80.0	76.9	73.3	120.9
Mar.	94.0	98.7	156.8	121.2	80.4	74.7	73.7	121.0
Apr.	94.3	100.1	150.7	121.5	81.0	74.8	74.1	122.1
May	93.0	98.7	154.6	121.3	80.6	75.6	74.0	126.2
June	93.2	98.9	154.6	120.4	80.2	77.5	73.6	126.5
July	90.8	99.5	157.3	120.5	80.5	80.3	73.8	125.9
Aug.	88.8	99.8	156.4	121.5	81.0	81.9	73.7	129.4
Sept.	87.4	98.3	166.5	121.2	81.2	80.6	72.7	129.4

Real effective exchange rates

(indices, 1980=100)

	US	Canada	Japan	Germany	France	UK	Italy	Switzerland
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	99.0	120.9	97.5	98.2	90.1	100.9	103.7
1987	93.8	101.0	125.8	102.1	99.3	91.6	102.8	105.5
1988	88.2	108.4	134.5	100.5	98.2	98.7	100.8	104.2
1989	93.3	111.9	124.9	98.4	96.9	96.4	103.1	98.9
1988 – 2nd qtr.	86.8	107.6	136.0	100.9	98.6	99.9	100.6	105.1
3rd "	91.4	110.7	130.8	99.2	97.5	98.6	99.8	102.2
4th "	87.6	110.5	136.0	99.7	97.4	100.3	100.7	102.7
1989 – 1st qtr.	90.3	111.5	131.7	98.2	96.4	100.5	101.2	100.4
2nd "	94.8	111.2	126.0	97.6	96.3	96.8	102.0	97.8
3rd "	94.7	112.6	122.5	97.6	96.9	95.7	104.1	98.9
4th "	93.5	112.4	119.3	100.1	98.1	92.7	105.3	98.7
1990 – 1st qtr.	93.6	109.7	111.9	102.0	100.3	94.1	107.0	100.0
2nd "	93.5	111.6	106.2	101.9	100.9	96.4	108.2	103.8
1989 – July	94.4	111.5	123.0	98.0	97.0	96.0	103.8	99.2
Aug.	93.9	113.6	123.7	97.4	97.1	95.8	104.3	98.4
Sept.	95.8	112.6	120.8	97.4	96.7	95.5	104.1	99.0
Oct.	94.2	112.0	121.2	99.0	97.3	94.1	104.4	99.0
Nov.	93.8	112.7	119.3	99.7	98.0	92.6	105.5	98.7
Dec.	92.5	112.4	117.3	101.7	99.2	91.4	106.0	98.3
1990 – Jan.	93.4	109.9	113.9	102.0	100.0	93.3	106.2	99.1
Feb.	92.9	108.5	113.3	102.0	100.2	95.6	107.1	99.9
Mar.	94.4	110.8	108.6	101.9	100.7	93.4	107.8	100.9
Apr.	94.4	112.5	104.4	102.2	101.4	94.5	108.4	101.6
May	93.0	111.0	106.9	102.2	100.9	96.0	108.3	104.8
June	93.0	111.3	107.3	101.4	100.4	98.6	108.0	105.0
July	90.4	112.8	109.0	101.3	100.6	102.1	108.3	104.4

Table a11

Real effective intra-EEC exchange rates

(indices, 1980=100)

	Belgium	France	Germany	UK	Netherlands	Italy	Spain
1984	94.2	95.6	99.8	101.8	101.5	106.3	100.2
1985	94.3	99.4	97.9	103.8	98.7	104.4	101.7
1986	88.8	102.4	103.8	96.6	93.8	104.8	97.4
1987	87.2	101.6	106.4	95.1	93.6	104.9	94.5
1988	85.3	100.8	105.1	103.6	91.9	103.0	97.8
1989	87.1	100.0	103.2	102.4	92.2	106.1	102.9
1988 – 2nd qtr.	84.8	100.9	105.2	104.2	91.7	102.5	97.9
3rd "	85.4	100.8	104.7	105.0	91.6	102.7	97.8
4th "	85.9	100.1	104.4	105.7	91.8	103.1	98.8
1989 – 1st qtr.	86.0	99.5	103.2	106.9	92.2	104.1	103.2
2nd "	87.0	99.8	103.0	103.8	92.8	105.4	102.2
3rd "	87.4	100.2	102.5	102.0	91.9	107.3	103.2
4th "	88.1	100.5	104.0	96.9	92.0	107.6	102.7
1990 – 1st qtr.	87.3	101.5	104.3	96.1	91.1	108.2	102.2
2nd "	87.1	101.6	103.4	97.5	89.9	109.0	104.4
1989 – July	86.9	100.1	102.8	102.0	92.2	106.9	103.2
Aug.	87.3	100.3	102.2	102.1	91.8	107.5	103.3
Sept.	87.8	100.0	102.4	101.9	91.6	107.4	103.2
Oct.	87.9	100.1	103.4	99.3	92.1	107.2	102.6
Nov.	88.1	100.5	103.8	97.1	91.7	108.0	103.1
Dec.	88.4	100.9	104.8	94.3	92.2	107.7	102.5
1990 – Jan.	87.1	101.4	104.6	95.6	92.1	107.5	102.1
Feb.	86.9	101.3	104.2	97.5	90.7	108.1	102.1
Mar.	87.8	101.8	104.0	95.2	90.7	108.9	102.6
Apr.	87.5	102.1	103.7	95.6	90.3	109.1	103.3
May	87.1	101.5	103.6	97.0	90.0	109.0	104.7
June	86.7	101.2	102.9	100.0	89.5	108.8	105.2
July	86.2	101.0	102.1	102.9	89.7	108.6	105.1

Table a12

External position of the Italian credit system

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

VIS-A-VIS	1989-Q2	1989-Q3	1989-Q4
Industrial countries	(164,526)	(156,048)	(171,219)
OPEC countries	(4,354)	(7,109)	(6,450)
Other developing countries	(11,191)	(11,021)	(9,124)
of which: Latin America	(6,810)	(6,762)	(5,275)
Africa	(1,505)	(1,492)	(1,314)
Asia	(1,910)	(1,823)	(1,763)
Middle East	(966)	(944)	(772)
Eastern Europe	(9,792)	(10,307)	(9,474)
Offshore centres	(15,808)	(15,248)	(16,370)
International organizations	(1,150)	(1,263)	(1,185)
Total	**(206,821)**	**(200,996)**	**(213,822)**
Memorandum item:			
Argentina	(1,577)	(1,530)	(1,339)
Bolivia	(3)	(5)	(6)
Brazil	(1,241)	(1,812)	(1,073)
Chile	(240)	(373)	(265)
Colombia	(191)	(236)	(203)
Ivory Coast	(33)	(36)	(28)
Ecuador	(143)	(488)	(172)
Philippines	(88)	(86)	(74)
Yugoslavia	(450)	(378)	(500)
Morocco	(520)	(475)	(450)
Mexico	(2,726)	(1,873)	(1,832)
Nigeria	(143)	(207)	(257)
Peru	(215)	(165)	(177)
Uruguay	(44)	(168)	(50)
Venezuela	(719)	(671)	(677)
Total	**(8,333)**	**(8,503)**	**(7,103)**
Bulgaria	(401)	(400)	(410)
Czechoslovakia	(143)	(209)	(204)
Poland	(1,512)	(1,488)	(1,383)
German Democratic Republic	(842)	(952)	(997)
Romania	(8)	(74)	(201)
Hungary	(510)	(626)	(598)

Table a13

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	Exports
				At 1980 prices					
1984	3.0	11.3	4.5	−1.0	10.9	4.5	2.1	10.2	7.3
1985	2.6	4.6	3.0	−0.5	3.4	1.4	3.1	3.4	3.9
1986	2.5	4.6	2.9	1.1	2.1	1.6	3.8	0.4	3.8
1987	3.0	10.1	4.4	−1.1	12.6	5.8	4.2	5.1	3.3
1988	4.2	6.9	4.7	1.2	11.6	6.7	4.1	4.5	4.8
1989	3.2	9.6	4.5	3.6	6.3	5.1	3.8	−0.5	10.1
1988 – 1st qtr. ...	1.1	−4.2	..	1.2	3.7	2.6	0.9	1.9	−6.6
2nd " ...	0.6	5.1	1.5	−0.5	2.1	1.0	0.8	−8.1	12.8
3rd " ...	1.1	3.1	1.5	0.5	1.5	1.0	1.3	10.6	−3.9
4th " ...	0.8	2.2	1.1	0.8	2.6	1.8	1.3	−5.1	5.1
1989 – 1st qtr. ...	0.7	2.7	1.1	1.7	2.4	2.1	1.0	2.7	−0.6
2nd " ...	0.8	3.5	1.4	0.4	1.1	0.8	0.5	−4.4	9.0
3rd " ...	0.8	−1.3	0.3	0.8	−0.6	..	0.8	3.2	−2.4
4th " ...	0.5	0.9	0.6	1.7	0.4	1.0	0.9	−1.7	1.2
1990 – 1st qtr. ...	0.9	3.5	1.5	1.0	1.7	1.4	0.9	6.6	−0.3
				Implicit price deflators					
1984	11.4	10.8	11.3	9.7	8.9	9.1	11.8	12.4	10.7
1985	8.9	7.5	8.6	8.6	7.9	8.2	9.0	8.6	7.9
1986	7.7	−15.2	3.4	3.7	3.3	3.5	5.8	4.2	−4.7
1987	5.9	−0.5	4.5	4.6	3.2	3.5	5.0	6.5	1.9
1988	6.2	4.4	5.8	7.2	3.3	4.8	5.2	9.8	5.1
1989	6.3	7.5	6.2	6.0	5.2	5.5	6.0	8.8	6.7
1988 – 1st qtr. ...	1.5	..	1.6	1.6	−0.5	0.5	1.1	4.7	0.1
2nd " ...	1.9	2.7	1.8	1.7	0.9	1.2	1.2	8.1	1.4
3rd " ...	1.9	2.2	1.9	1.4	1.8	1.6	1.4	..	3.6
4th " ...	1.2	1.9	1.2	0.7	1.9	1.2	1.4	2.4	0.9
1989 – 1st qtr. ...	1.7	2.6	1.7	1.4	1.9	1.7	1.6	0.7	2.6
2nd " ...	1.3	2.5	1.4	1.6	1.0	1.2	1.6	2.6	1.6
3rd " ...	1.2	−0.3	1.1	2.4	0.1	1.3	1.2	1.0	−0.5
4th " ...	2.3	−0.1	1.9	1.4	−0.3	0.6	1.5	6.2	0.8
1990 – 1st qtr. ...	1.7	−0.6	1.2	4.1	0.3	2.1	1.7	−2.2	1.0

Table a14

Industrial production and business opinion indicators

(seasonally adjusted data)

	INDUSTRIAL PRODUCTION				ISCO BUSINESS OPINION INDICATORS				
					Changes in level of orders				
	General index	Consumer goods	Investment goods	Intermediate goods	Domestic	Foreign	Total	Expected demand in 3-4 months	Stocks of finished goods vis-à-vis normal
	(indices, 1985=100)				*(average balance of monthly responses)*				
1985	100.0	100.0	100.0	100.0	–22.7	–29.7	–21.1	7.5	6.1
1986	103.6	102.5	108.4	102.7	–18.8	–23.9	–18.0	11.1	4.9
1987	107.6	105.9	110.3	107.7	–8.4	–25.3	–9.1	10.8	–0.8
1988	114.1	111.6	119.6	113.6	3.3	–9.6	2.9	18.5	–7.5
1989	117.6	114.6	123.1	117.5	0.5	–5.7	2.8	22.9	–4.1
1986 – 2nd qtr. ...	102.8	101.9	107.9	102.1	–15.7	–23.9	–17.6	11.4	8.7
3rd " ...	103.5	101.6	108.3	102.4	–17.9	–23.7	–16.8	12.1	4.0
4th " ...	105.1	104.0	112.9	103.8	–16.8	–21.7	–15.4	11.9	2.7
1987 – 1st qtr. ...	105.3	105.0	107.6	105.2	–12.1	–25.4	–12.4	13.7	4.0
2nd " ...	108.4	106.4	112.1	108.7	–8.8	–27.5	–10.6	9.7	1.7
3rd " ...	107.7	105.5	108.5	107.7	–7.4	–26.1	–8.1	10.5	–4.3
4th " ...	109.2	106.5	112.9	109.3	–5.1	–22.3	–5.2	9.5	–4.3
1988 – 1st qtr. ...	112.6	110.6	117.1	112.6	–2.5	–17.0	–2.3	10.4	–2.7
2nd " ...	113.2	110.0	119.3	112.5	1.5	–10.0	1.0	15.0	–7.0
3rd " ...	114.6	112.3	122.2	114.0	5.7	–8.0	4.9	20.8	–8.7
4th " ...	116.0	113.3	120.0	115.5	8.6	–3.4	8.1	27.9	–11.7
1989 – 1st qtr. ...	115.9	112.5	120.9	115.7	5.5	–3.9	8.3	25.6	–8.0
2nd " ...	116.7	113.8	120.2	116.3	–0.3	–5.9	1.9	23.7	–1.7
3rd " ...	118.1	116.6	124.2	119.0	–1.9	–3.4	1.6	21.3	–4.3
4th " ...	119.8	115.6	127.0	118.9	–1.3	–9.5	–0.4	21.1	–2.3
1990 – 1st qtr. ...	117.9	114.1	126.4	117.1	–1.3	–11.1	–2.1	18.7	–2.0
2nd " ...	118.5	113.4	127.3	117.7	–4.8	–9.0	–1.7	17.0	2.3

Table a15

Labour market statistics

(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					
1985	2,305	4,967	1,917	11,587	20,775	2,406	23,181	10.3	12.1	40.9
1986	2,233	4,939	1,873	11,822	20,866	2,635	23,502	11.1	12.7	41.5
1987	2,153	4,868	1,844	11,980	20,845	2,849	23,694	12.0	13.2	41.8
1988	2,043	4,955	1,837	12,271	21,105	2,884	23,988	12.0	13.0	42.3
1989	1,947	4,969	1,805	12,325	21,046	2,840	23,885	12.0	12.8	42.0
1986 – 1st qtr.	2,263	4,965	1,900	11,730	20,858	2,568	23,426	11.0	12.6	41.4
2nd "	2,208	4,950	1,874	11,773	20,803	2,582	23,386	11.0	12.7	41.3
3rd "	2,224	4,915	1,866	11,861	20,865	2,651	23,516	11.3	12.7	41.5
4th "	2,237	4,925	1,852	11,925	20,938	2,741	23,679	11.6	13.0	41.8
1987 – 1st qtr.	2,214	4,869	1,852	11,923	20,858	2,766	23,624	11.7	13.0	41.7
2nd "	2,178	4,845	1,861	11,920	20,803	2,843	23,647	12.0	13.3	41.7
3rd "	2,127	4,864	1,846	11,981	20,817	2,896	23,713	12.2	13.5	41.8
4th "	2,094	4,894	1,817	12,095	20,901	2,892	23,793	12.2	13.3	42.0
1988 – 1st qtr.	2,099	4,944	1,830	12,227	21,100	2,908	24,009	12.1	13.2	42.3
2nd "	2,081	4,975	1,848	12,323	21,227	2,898	24,126	12.0	13.0	42.5
3rd "	2,020	4,964	1,839	12,286	21,109	2,860	23,969	11.9	12.9	42.2
4th "	1,971	4,935	1,831	12,246	20,983	2,868	23,850	12.0	12.9	42.0
1989 – 1st qtr.	1,950	4,939	1,779	12,281	20,949	2,890	23,839	12.1	13.0	41.9
2nd "	1,930	4,951	1,769	12,287	20,936	2,897	23,833	12.2	13.0	41.9
3rd "	1,943	4,968	1,822	12,329	21,061	2,840	23,901	11.9	12.7	42.1
4th "	1,966	5,017	1,852	12,402	21,236	2,732	23,968	11.4	12.2	42.1
1990 – 1st qtr.	1,952	5,045	1,863	12,452	21,312	2,636	23,948	11.0	11.8	42.1

Table a16

Wholesale and consumer prices

(% changes on corresponding period)

	Wholesale prices				Consumer prices				Cost of living	*Scala mobile* index
	Consumer goods	Invest-ment goods	Intermedi-ate goods	Total	Food	Non-food products	Services	Total		
1984	....	....	....	....	9.1	10.4	13.3	10.8	10.6	11.1
1985	....	....	....	....	8.7	8.6	10.4	9.2	8.6	8.4
1986	....	....	....	....	5.5	3.7	8.9	5.9	6.1	5.9
1987	....	....	....	....	4.3	4.4	5.5	4.7	4.6	5.4
1988	....	....	....	....	3.9	4.7	6.4	5.0	5.0	5.3
1989	....	....	....	....	6.3	5.1	7.7	6.3	6.6	6.5
1988 – 3rd qtr.	....	....	....	....	4.2	4.6	6.1	5.0	4.9	5.5
4th "	....	....	....	....	4.2	4.1	7.1	5.1	5.2	5.7
1989 – 1st qtr.	....	....	....	....	5.7	4.8	7.3	5.9	6.1	6.3
2nd "	....	....	....	....	6.6	5.0	7.9	6.5	6.8	6.8
3rd "	....	....	....	....	6.5	4.7	8.2	6.4	6.8	6.3
4th "	....	....	....	....	6.2	5.7	7.3	6.3	6.6	6.6
1990 – 1st qtr.	5.5	5.7	6.9	6.4	6.1	5.9	7.5	6.5	6.2	6.9
2nd "	5.7	5.2	4.1	4.6	6.1	5.4	7.0	6.1	5.7	6.8
3rd "	....	....	....	....	....	....	....	....	6.1	....
1989 – Sept.	....	....	....	....	6.4	4.5	8.1	6.3	6.6	6.1
Oct.	....	....	....	....	6.4	5.5	7.6	6.4	6.8	6.7
Nov.	....	....	....	....	6.1	5.6	7.3	6.3	6.4	6.7
Dec.	....	....	....	....	6.1	6.0	7.1	6.3	6.5	6.6
1990 – Jan.	6.2	6.6	8.9	8.0	5.8	6.2	7.7	6.6	6.4	6.8
Feb.	5.5	5.6	6.2	6.0	6.4	5.8	7.5	6.5	6.2	6.9
Mar.	4.8	4.8	5.6	5.3	6.0	5.7	7.4	6.3	6.1	6.9
Apr.	6.0	5.0	3.7	4.4	6.0	5.6	7.1	6.2	5.8	6.9
May	5.5	5.3	3.1	3.9	6.0	5.3	6.9	6.0	5.7	6.9
June	5.7	5.4	5.4	5.5	6.2	5.2	7.1	6.1	5.6	6.7
July	....	....	....	....	6.4	5.1	7.3	6.2	5.7	6.9
Aug.	....	....	....	....	....	....	....	....	6.3	7.5
Sept.	....	....	....	....	....	....	....	....	6.3	....

Balance of payments on a settlements basis

(billions of lire)

	Goods	Services and transfers				Balance on current account	Non-bank capital flows	Bank capital flows	Errors and omissions	Change in official reserves
		Foreign travel	Income from capital	Other	Total					
1986	–4,716	10,353	–10,259	3,311	3,405	–1,311	–57	6,454	–1,597	–3,489
1987	–8,186	9,902	–9,873	5,013	5,042	–3,144	4,754	5,573	–408	–6,775
1988	–12,826	8,349	–10,578	2,770	541	–12,285	13,164	10,224	–197	–10,906
1989	(–19,518)	(7,151)	(–12,666)	(–676)	(–6,191)	(–25,709)	(24,920)	(14,979)	(1,196)	(–15,386)
1989 – Aug.	(657)	(979)	(–728)	(257)	(508)	(1,165)	(1,581)	(2,785)	(–69)	(–5,462)
Sept.	(–1,978)	(1,032)	(–1,142)	(–154)	(–264)	(–2,242)	(8,055)	(–53)	(–2,905)	(–2,855)
Oct.	(–1,037)	(679)	(–1,332)	(–371)	(–1,024)	(–2,061)	(2,436)	(–1,931)	(–94)	(1,650)
Nov.	(–1,430)	(426)	(–1,272)	(–217)	(–1,063)	(–2,493)	(–1,936)	(2,323)	(–567)	(2,673)
Dec.	(–30)	(–162)	(–1,032)	(–12)	(–1,206)	(–1,236)	(–961)	(1,921)	(627)	(–351)
1990 – Jan.	(1,120)	(104)	(–1,114)	(110)	(–900)	(220)	(1,510)	(4,406)	(–4,147)	(–1,989)
Feb.	(–2,305)	(91)	(–1,016)	(–242)	(–1,167)	(–3,472)	(–107)	(2,214)	(1,094)	(271)
Mar.	(–749)	(509)	(–1,010)	(–1,014)	(–1,515)	(–2,264)	(5,268)	(3,347)	(–2,165)	(–4,186)
Apr.	(–2,250)	(611)	(–1,986)	(27)	(–1,348)	(–3,598)	(7,088)	(–1,275)	(35)	(–2,250)
May	(–845)	(769)	(–1,582)	(162)	(–651)	(–1,496)	(3,902)	(5,214)	(–595)	(–7,025)
June	(–1,701)	(70)	(–1,401)	(658)	(–673)	(–2,374)	(7,473)	(808)	(280)	(–6,187)
July	....	....	....	....	....	....	....	(2,247)	....	(–1,796)
Aug.	....	....	....	....	....	....	....	(–1,623)	....	(–715)

Balance of payments on a transactions basis

(billions of lire)

	Goods	Services and transfers				Balance on current account	Non-bank capital flows	Bank capital flows	Errors and omissions	Change in official reserves
		Foreign travel	Income from capital	Other	Total					
1986	6,283	10,353	–9,259	–3,575	–2,481	3,802	–4,215	6,454	–2,552	–3,489
1987	–77	9,902	–8,573	–3,192	–1,863	–1,940	6,530	5,573	–3,388	–6,775
1988	–1,501	8,349	–9,278	–5,389	–6,318	–7,819	11,413	10,224	–2,912	–10,906
1989	(–2,712)	(7,151)	(–11,366)	(–7,525)	(–11,740)	(–14,452)	(20,338)	(14,979)	(–5,479)	(–15,386)
1988 – 2nd qtr.	759	2,709	–2,576	57	190	949	–1,617	2,807	–2,679	540
3rd "	1,315	3,436	–2,478	–2,089	–1,131	184	6,562	–1,399	–2,063	–3,284
4th "	308	1,459	–2,074	–1,879	–2,494	–2,186	2,067	6,928	–1,059	–5,750
1989 – 1st qtr.	(–6,001)	(624)	(–2,181)	(–3,515)	(–5,072)	(–11,073)	(6,391)	(11,285)	(383)	(–6,986)
2nd "	(–869)	(2,453)	(–3,290)	(153)	(–684)	(–1,553)	(8,194)	(–856)	(–1,621)	(–4,164)
3rd "	(2,379)	(3,131)	(–2,908)	(–2,460)	(–2,237)	(142)	(10,983)	(2,237)	(–5,154)	(–8,208)
4th "	(1,779)	(943)	(–2,987)	(–1,703)	(–3,747)	(–1,968)	(–5,230)	(2,313)	(913)	(3,972)
1990 – 1st qtr.	(–5,324)	(703)	(–3,139)	(–3,891)	(–6,327)	(–11,651)	(14,277)	(9,967)	(–6,689)	(–5,904)
2nd "	(1,621)	(1,451)	(–4,318)	(–2,268)	(–5,135)	(–3,514)	(15,841)	(4,747)	(–1,612)	(–15,462)

Table a18

External position of BI-UIC

	Short-term position							Medium and long-term position	Total official reserves
	Assets					Liabilities	Balances		
	Gold	Convertible currencies	Ecus	SDRs	Reserve position in the IMF				
					(billions of lire)				
1985	39,530	16,536	7,139	879	1,946	205	65,825	–616	65,209
1986	35,203	14,340	10,158	1,085	1,713	285	62,214	–803	61,411
1987	39,812	20,307	12,220	1,253	1,691	127	75,156	–859	74,297
1988	37,242	32,136	10,360	1,239	1,653	192	82,438	337	82,775
1989 – Aug.	(35,422)	(47,033)	(10,891)	(1,305)	(1,806)	(129)	(96,328)	(105)	(96,433)
Sept.	(34,847)	(50,047)	(10,998)	(1,300)	(1,774)	(115)	(98,851)	(117)	(98,968)
Oct.	(34,847)	(47,558)	(11,339)	(1,283)	(1,709)	(111)	(96,625)	(94)	(96,719)
Nov.	(34,847)	(44,220)	(11,309)	(1,290)	(1,819)	(94)	(93,391)	(659)	(94,050)
Dec.	(33,663)	(44,847)	(11,409)	(1,268)	(1,834)	(401)	(92,620)	(620)	(93,240)
1990 – Jan.	(33,663)	(46,524)	(11,099)	(1,261)	(1,786)	(230)	(94,103)	(527)	(94,630)
Feb.	(33,663)	(46,137)	(11,067)	(1,281)	(1,790)	(443)	(93,495)	(573)	(94,068)
Mar.	(33,606)	(50,109)	(11,029)	(1,264)	(1,755)	(428)	(97,335)	(582)	(97,917)
Apr.	(33,606)	(51,877)	(10,372)	(1,247)	(1,732)	(370)	(98,464)	(613)	(99,077)
May	(33,606)	(59,098)	(10,463)	(1,300)	(1,780)	(352)	(105,895)	(771)	(106,666)
June	(31,021)	(64,923)	(10,483)	(1,293)	(1,746)	(248)	(109,218)	(817)	(110,035)
July	(31,021)	(65,955)	(10,084)	(1,269)	(1,691)	(309)	(109,711)	(767)	(110,478)
Aug.	(31,021)	(67,369)	(10,209)	(1,311)	(1,675)	(412)	(111,173)	(796)	(111,969)
					(millions of dollars)				
1985	23,558	9,855	4,254	524	1,160	122	39,228	–367	38,861
1986	26,055	10,614	7,518	803	1,268	211	46,047	–594	45,453
1987	34,050	17,368	10,451	1,072	1,446	109	64,278	–735	63,543
1988	28,521	24,611	7,934	949	1,266	147	63,134	258	63,392
1989 – Aug.	(25,073)	(33,430)	(7,741)	(928)	(1,284)	(92)	(68,364)	(75)	(68,439)
Sept.	(25,525)	(36,659)	(8,056)	(952)	(1,299)	(84)	(72,408)	(86)	(72,493)
Oct.	(25,525)	(35,241)	(8,402)	(951)	(1,266)	(82)	(71,303)	(70)	(71,373)
Nov.	(25,525)	(33,533)	(8,576)	(978)	(1,379)	(71)	(69,920)	(500)	(70,420)
Dec.	(26,496)	(35,299)	(8,980)	(998)	(1,444)	(316)	(72,901)	(488)	(73,389)
1990 – Jan.	(26,496)	(37,130)	(8,858)	(1,006)	(1,425)	(184)	(74,732)	(421)	(75,153)
Feb.	(26,496)	(36,904)	(8,852)	(1,025)	(1,432)	(354)	(74,354)	(458)	(74,812)
Mar.	(26,902)	(40,113)	(8,829)	(1,012)	(1,405)	(343)	(77,918)	(466)	(78,384)
Apr.	(26,902)	(42,128)	(8,423)	(1,013)	(1,407)	(300)	(79,572)	(498)	(80,070)
May	(26,902)	(47,514)	(8,412)	(1,045)	(1,431)	(283)	(85,021)	(620)	(85,641)
June	(25,296)	(52,942)	(8,548)	(1,054)	(1,424)	(202)	(89,063)	(666)	(89,729)
July	(25,296)	(56,497)	(8,638)	(1,087)	(1,449)	(265)	(92,702)	(657)	(93,359)
Aug.	(25,296)	(58,107)	(8,805)	(1,131)	(1,445)	(355)	(94,428)	(687)	(95,115)

Table a19

State sector borrowing requirement

(billions of lire)

	Budget revenues			Budget disbursements			Deficit (–)	Other trans-actions	Borrowing require-ment (–)	Borrowing requirement (–)	
	Fiscal	Other	Total	Current expendi-ture	Capital expendi-ture	Total				net of debt settle-ments in securities	of which: settle-ments of past debts in cash
1984	160,627	39,082	199,709	243,883	48,761	292,645	–92,936	–2,760	–95,695	–95,695	0
1985	177,645	43,945	221,589	279,238	54,988	334,226	–112,637	–9,976	–122,613	–112,210	–2,187
1986	202,090	51,779	253,869	307,338	63,681	371,019	–117,150	6,991	–110,159	–110,159	–606
1987	224,676	56,867	281,542	333,987	67,252	401,239	–119,696	5,446	–114,250	–113,829	–132
1988	257,271	54,801	312,071	366,887	66,043	432,930	–120,859	–4,784	–125,643	–124,911	–64
1989	293,431	60,531	353,962	394,635	70,172	464,807	–110,845	–22,953	–133,798	–133,344	–1,064
1988 – 3rd qtr. .	49,839	17,365	67,204	112,687	17,321	130,008	–62,805	19,868	–42,936	–42,936	–4
4th " .	90,384	20,301	110,685	105,309	32,917	138,226	–27,540	–3,680	–31,220	–30,549	–2
1989 – 1st qtr. .	59,745	9,866	69,611	63,320	10,171	73,491	–3,881	–26,883	–30,764	–30,310	–202
2nd " .	87,986	11,701	99,687	107,648	12,633	120,281	–20,595	7,372	–13,222	–13,222	–748
3rd " .	57,506	15,079	72,585	87,483	13,362	100,845	–28,259	–11,091	–39,351	–39,351	–26
4th " .	88,195	23,884	112,079	136,184	34,005	170,190	–58,110	7,649	–50,461	–50,461	–89
1990 – 1st qtr. .	71,303	10,548	81,852	70,943	6,197	77,140	4,712	–30,366	–25,653	–25,653	–145
2nd " .	90,342	21,133	111,475	143,105	18,075	161,181	–49,706	26,960	–22,746	–22,746	..
3rd " .	73,137	17,313	90,450	107,530	16,601	124,131	–33,681	–2,791	–36,471	–36,471	–24
1989 – Sept.	14,201	4,810	19,011	20,595	1,819	22,414	–3,404	–14,453	–17,856	–17,856	0
Oct.	25,748	6,486	32,234	46,488	5,350	51,838	–19,604	7,244	–12,360	–12,360	–17
Nov.	23,037	2,370	25,408	44,387	5,024	49,411	–24,004	4,655	–19,349	–19,349	–57
Dec.	39,409	15,028	54,437	45,309	23,632	68,941	–14,503	–4,250	–18,753	–18,753	–15
1990 – Jan.	29,534	2,909	32,443	23,070	301	23,370	9,073	–4,455	4,618	4,618	0
Feb.	19,288	3,026	22,313	20,429	1,386	21,816	498	–12,607	–12,109	–12,109	–3
Mar.	22,482	4,614	27,096	27,444	4,510	31,954	–4,858	–13,304	–18,162	–18,162	–142
Apr.	20,869	4,079	24,947	49,261	8,018	57,278	–32,331	15,133	–17,198	–17,198	..
May	27,666	7,424	35,091	68,823	7,967	76,790	–41,699	27,080	–14,620	–14,620	0
June	41,807	9,630	51,437	25,022	2,091	27,113	24,325	–15,253	9,072	9,072	0
July	30,372	5,399	35,771	37,663	4,195	41,858	–6,087	–644	–6,731	–6,731	–4
Aug.	26,183	10,297	36,480	44,001	10,071	54,072	–17,592	6,960	–10,632	–10,632	–20
Sept.	16,582	1,618	18,199	25,866	2,335	28,201	–10,002	–9,106	–19,108	–19,108	0

Table a20

Financing of the state sector borrowing requirement

(billions of lire)

	Medium and long-term securities		Treasury bills	BI-UIC financing other than securities purchases		PO deposits	Foreign loans	Other	Borrowing requirement	
	Total	of which: floating rate Treasury credit certificates		Total	of which: Treasury overdraft with BI					of which: creation of monetary base
1984	62,762	56,738	9,300	13,288	18,555	6,365	2,271	1,709	95,695	10,027
1985	93,207	78,567	13,181	3,689	6,340	9,067	2,937	532	122,613	27,519
1986	87,072	53,534	9,697	1,673	4,525	11,267	856	–407	110,159	10,994
1987	56,090	35,267	27,482	10,224	9,274	12,917	6,066	1,470	114,250	9,172
1988	60,972	–7,848	41,982	3,704	4,331	10,996	4,227	3,763	125,643	2,748
1989	59,191	20,916	43,143	1,835	1,842	15,076	8,592	5,961	133,798	6,382
1988 – 3rd qtr. ...	11,685	–9,701	22,005	2,551	3,521	1,187	2,447	3,060	42,936	3,422
4th " ...	24,490	–5,133	484	–2,993	–3,406	6,904	698	1,638	31,220	–658
1989 – 1st qtr. ...	4,369	9,675	21,266	–746	–1,018	2,027	2,895	953	30,764	–311
2nd " ...	17,090	1,466	747	–9,696	–8,826	1,348	874	2,859	13,222	–7,718
3rd " ...	16,314	2,932	8,133	6,980	6,538	1,772	3,875	2,277	39,351	3
4th " ...	21,417	6,842	12,997	5,296	5,148	9,929	949	–128	50,461	14,408
1990 – 1st qtr. ...	8,771	9,286	8,559	2,127	1,811	2,661	2,334	1,201	25,653	–344
2nd " ...	24,440	21,505	7,970	–16,576	–16,757	851	4,773	1,288	22,746	–20,224
3rd " ...	8,187	11,789	8,892	12,130	12,849	682	3,368	3,212	36,471	5,370
1989 – Sept.	9,365	2,932	4,419	1,417	1,303	225	923	1,507	17,856	–3,414
Oct.	8,118	1,955	2,451	–1,758	–1,962	397	2,551	601	12,360	4,313
Nov.	7,541	2,932	5,946	7,685	7,598	513	–1,811	–527	19,349	7,313
Dec.	5,758	1,955	4,600	–631	–488	9,019	209	–202	18,753	2,783
1990 – Jan.	3,021	2,932	2,362	–14,169	–14,025	2,872	1,008	289	–4,618	–2,987
Feb.	3,734	1,955	1,961	4,199	4,058	180	1,366	669	12,109	2,135
Mar.	2,016	4,399	4,237	12,097	11,779	–390	–40	243	18,162	508
Apr.	5,499	9,775	4,994	2,953	3,098	672	3,445	–365	17,198	–2,847
May	15,046	11,730	702	–1,791	–1,471	–468	1,270	–140	14,620	–3,465
June	3,895	0	2,274	–17,738	–18,383	647	59	1,793	–9,072	–13,912
July	3,488	2,488	105	–2,031	–1,754	433	2,098	2,639	6,731	8,097
Aug.	3,786	4,174	2,538	3,304	3,778	–674	1,270	408	10,632	–3,329
Sept.	913	5,127	6,250	10,857	10,825	923	0	165	19,108	602

Table a21

The domestic public debt

(end-of-period 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	Subtotal	Borrowing from BI-UIC	Total debt	
									of which: state sector
1982	80,895	127,395	39,322	24,056	1,938	273,606	78,670	352,276	332,540
1983	149,876	137,772	44,261	29,800	2,147	363,857	79,630	443,486	421,237
1984	207,892	152,691	50,626	38,630	2,379	452,217	92,863	545,081	516,215
1985 – 1st qtr. ..	230,724	146,955	52,141	39,444	2,429	471,692	102,991	574,683	545,794
2nd " ..	251,003	159,816	52,408	37,963	2,434	503,624	102,664	606,288	577,457
3rd " ..	273,513	165,217	52,399	36,546	2,457	530,132	106,014	636,146	609,644
4th " ..	294,961	150,814	59,693	36,418	2,437	544,323	120,286	664,609	639,252
1986 – 1st qtr. ..	306,585	153,074	61,003	35,424	2,370	558,457	131,536	689,993	666,135
2nd " ..	335,811	154,261	61,274	36,205	2,386	589,937	120,596	710,533	686,190
3rd " ..	359,337	163,507	62,490	35,217	2,443	622,993	123,503	746,496	722,477
4th " ..	374,454	159,187	70,960	37,948	2,461	645,010	130,954	775,965	750,698
1987 – 1st qtr. ..	402,094	154,059	73,091	37,292	2,501	669,037	132,528	801,565	776,487
2nd " ..	419,910	156,222	74,102	38,144	2,553	690,930	135,267	826,198	799,401
3rd " ..	429,284	172,444	76,189	36,806	2,614	717,338	144,446	861,784	837,678
4th " ..	429,752	191,427	83,877	41,376	2,606	749,038	137,968	887,006	861,915
1988 – 1st qtr. ..	442,761	204,162	86,519	40,853	2,636	776,931	136,233	913,163	888,705
2nd " ..	456,102	216,429	86,782	41,258	2,706	803,278	135,601	938,878	913,128
3rd " ..	464,710	239,400	87,969	42,715	2,722	837,517	138,858	976,374	953,377
4th " ..	483,509	239,318	94,873	45,535	2,743	865,978	140,522	1,006,500	984,063
1989 – 1st qtr. ..	492,016	257,762	96,899	44,588	2,784	894,049	139,904	1,033,954	1,011,797
2nd " ..	501,782	262,129	98,247	47,660	2,840	912,659	133,209	1,045,868	1,024,424
3rd " ..	522,487	273,266	100,019	48,615	2,898	947,285	133,939	1,081,224	1,060,754
4th " ..	535,120	284,976	109,949	52,887	2,881	985,813	147,474	1,133,287	1,111,228
1990 – Jan.	523,673	289,697	112,820	52,697	2,918	981,806	145,167	1,126,973	1,105,719
Feb.	529,385	292,606	113,000	54,854	2,914	992,759	147,200	1,139,959	1,117,472
Mar.	540,917	299,333	112,610	55,528	2,941	1,011,329	147,154	1,158,482	1,135,937
Apr.	552,881	303,368	113,282	54,445	2,967	1,026,942	144,112	1,171,054	1,149,201
May	569,815	304,573	112,814	54,330	3,015	1,044,548	140,611	1,185,159	1,163,532
June	574,512	302,513	113,461	55,850	3,034	1,049,369	126,564	1,175,933	1,154,561

Table a22.1

Monetary base

(billions of lire)

	SOURCES						
	Foreign sector	Treasury				Refinancing	Other sectors
		Total	of which:		*Memorandum item: undrawn overdraft facility*		
			BI-UIC government securities	Treasury overdraft with BI			
1985	9,014	118,773	64,019	48,182	2,960	8,763	–7,199
1986	12,557	129,728	73,285	52,707	5,054	4,429	–8,163
1987	19,313	138,479	71,713	61,981	1,101	3,699	–8,996
1988	30,260	140,845	70,302	66,312	4,341	3,669	–9,321
1989 – Sept.	49,538	132,820	65,637	63,007	5,855	3,485	–11,461
Oct.	47,899	137,132	71,709	61,045	7,872	3,495	–12,516
Nov.	44,832	144,445	71,327	68,643	1,054	3,456	–13,331
Dec.	45,231	146,970	74,489	68,155	1,658	4,872	–11,082
1990 – Jan.	47,695	143,983	85,644	54,129	19,171	8,536	–10,662
Feb.	47,406	146,118	83,588	58,187	16,672	3,471	–11,379
Mar.	51,583	146,626	71,996	69,966	4,953	3,439	–12,784
Apr.	53,809	143,779	66,195	73,064	1,877	3,423	–14,399
May	60,839	140,314	64,492	71,593	3,367	3,443	–15,181
June	67,004	126,402	68,324	53,209	21,779	4,133	–12,046
July	(69,361)	(134,499)	78,436	(51,455)	(23,625)	(3,487)	(–14,146)
Aug.	(70,075)	(131,170)	71,803	(55,233)	(19,905)	(3,502)	(–15,206)
Sept.	(70,221)	(131,772)	(61,683)	(66,058)	(9,080)	(3,498)	(–16,560)

	USES						Total monetary base
	Non-state sector		Banks				
	Total	of which: notes and coin	Compulsory reserves	Deposit against ceiling overshoots	Liquidity	Total	
1985	45,209	44,979	76,086	0	8,056	84,142	129,351
1986	48,349	48,175	85,107	..	5,094	90,201	138,550
1987	52,730	52,613	93,847	657	5,262	99,766	152,496
1988	57,180	56,955	103,291	0	4,982	108,273	165,453
1989 – Sept.	57,941	57,792	111,992	0	4,449	116,441	174,382
Oct.	56,350	56,216	112,839	0	6,822	119,660	176,010
Nov.	58,047	57,897	113,825	0	7,529	121,355	179,402
Dec.	67,687	67,473	112,858	0	5,445	118,303	185,990
1990 – Jan.	60,226	60,117	124,496	0	4,830	129,326	189,552
Feb.	60,072	59,979	121,141	0	4,402	125,544	185,616
Mar.	61,318	61,137	119,243	0	8,303	127,546	188,864
Apr.	61,289	61,195	119,500	0	5,823	125,323	186,612
May	60,618	60,542	120,700	0	8,098	128,798	189,416
June	62,695	62,546	118,461	0	4,337	122,798	185,493
July	(65,607)	(65,524)	(121,641)	0	(5,953)	(127,594)	(193,201)
Aug.	(62,258)	(62,142)	(121,392)	0	(5,891)	(127,283)	(189,541)
Sept.	(63,471)	(63,352)	(121,200)	0	(4,260)	(125,460)	(188,930)

Table a22.2

Monetary base

(changes in billions of lire)

	Foreign sector	Treasury	Refinancing	Other	Total	Non-state sector	Banks: Compulsory reserves	Banks: Deposits against ceiling overshoots	Banks: Liquidity
1986	3,543	10,994	–4,334	–1,004	9,200	3,140	9,022	..	–2,962
1987	6,756	9,172	–729	–1,253	13,946	4,381	8,740	657	167
1988	10,947	2,748	–30	–707	12,957	4,450	9,444	–657	–280
1989	14,971	6,383	1,203	–2,019	20,537	10,507	9,567	0	463
1989 – Sept.	2,846	–3,414	35	469	–65	1,367	–210	0	–1,221
Oct.	–1,639	4,313	10	–1,055	1,629	–1,591	847	0	2,373
Nov.	–3,068	7,313	–38	–815	3,392	1,697	987	0	708
Dec.	399	2,783	1,415	1,991	6,588	9,640	–967	0	–2,084
1990 – Jan.	2,464	–2,987	3,665	420	3,562	–7,461	11,638	0	–615
Feb.	–288	2,135	–5,066	–717	–3,936	–154	–3,354	0	–428
Mar.	4,177	508	–31	–1,405	3,248	1,245	–1,898	0	3,901
Apr.	2,225	–2,847	–16	–1,615	–2,252	–29	256	0	–2,480
May	7,030	–3,465	20	–782	2,804	–671	1,200	0	2,275
June	6,165	–13,912	690	3,135	–3,923	2,077	–2,239	0	–3,761
July	(2,357)	(8,097)	(–646)	(–2,100)	(7,708)	(2,912)	(3,180)	0	(1,616)
Aug.	(714)	(–3,329)	(15)	(–1,060)	(–3,660)	(–3,349)	(–249)	0	(–62)
Sept.	(146)	(602)	(–4)	(–1,354)	(–610)	(1,213)	(–192)	0	(–1,631)

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: Total	Open market: of which: repurchase agreements	Net sales of securities: Total	Other forms of non-monetary financing	Monetary financing
1986	110,159	–6,455	–47,664	–31,521	–1,823	1,913	–87,463	–11,702	10,994
1987	114,250	–19,353	–31,207	–20,160	–14,004	–4,140	–84,725	–20,354	9,172
1988	125,643	–29,045	9,596	–73,933	–10,601	–1,066	–103,983	–18,912	2,748
1989	133,798	–36,296	–18,757	–40,730	–2,106	3,941	–97,890	–29,525	6,383
1989 – Sept.	17,856	–5,858	–2,917	–6,719	–3,149	–2,693	–18,643	–2,627	–3,414
Oct.	12,360	–2,069	–1,923	–6,116	5,612	6,882	–4,496	–3,551	4,313
Nov.	19,349	–3,321	–2,917	–5,138	–2,494	–1,825	–13,869	1,834	7,313
Dec.	18,753	–3,466	–1,657	–4,935	3,119	2,832	–6,939	–9,031	2,783
1990 – Jan.	–4,618	–2,381	–2,933	–80	11,166	13,594	5,772	–4,141	–2,987
Feb.	12,109	–3,683	–1,940	–252	–1,875	–3,518	–7,750	–2,224	2,135
Mar.	18,162	–4,783	–4,374	3,305	–11,992	–12,251	–17,844	190	508
Apr.	17,198	–5,826	–9,745	3,817	–4,540	–3,386	–16,294	–3,751	–2,847
May	14,620	–1,485	–11,713	–3,503	–764	404	–17,465	–619	–3,465
June	–9,072	–329	0	–3,920	1,912	5,219	–2,337	–2,503	–13,912
July	6,731	–1,165	–2,626	–1,210	11,819	9,776	6,818	(–5,453)	(8,097)
Aug.	10,632	–1,793	(–4,454)	(518)	–7,187	–9,574	–12,916	(–1,046)	(–3,329)
Sept.	19,108	(–6,265)	(5,338)	(–5,048)	(–11,308)	–4,673	(–17,283)	(–1,223)	(602)

Table a23

BI-UIC operations in government securities

(billions of lire)

	Primary market		Open market				
				of which: repurchase agreements			
	Subscriptions	Redemptions	Total	Financing of subscriptions	Other purchases	Sales	Variations in BI-UIC portfolio
			Treasury bills				
1986	24,420	21,177	–1,841	1,797	–320	0	1,402
1987	31,838	26,021	–10,332	–1,035	–501	0	–4,515
1988	24,012	16,783	–12,503	–614	–254	0	–5,274
1989	18,887	15,406	–6,464	1,342	0	0	–2,983
1989 – Sept.	0	1,759	–86	416	0	0	–1,845
Oct.	575	193	–1,258	–311	0	0	–876
Nov.	1,900	0	–1,670	–555	86	0	230
Dec.	0	0	1,720	1,915	–86	0	1,720
1990 – Jan.	0	20	–2,313	–1,826	783	0	–2,332
Feb.	1,400	1,606	–14	479	–403	0	–221
Mar.	2,200	2,318	–2,405	–723	–380	0	–2,523
Apr.	1,000	1,076	246	910	0	0	170
May	0	30	–705	–910	0	0	–735
June	2,300	355	2,409	1,170	25	0	4,354
July	1,300	1,592	2,088	–20	730	0	1,797
Aug.	1,450	704	–1,271	–900	–465	0	–525
Sept.	(500)	(515)	(–3,228)	653	–290	0	(–3,243)
			Treasury credit certificates				
1986	8,051	2,182	–173	0	–136	0	5,696
1987	5,868	2,108	–2,590	0	–2,415	0	1,169
1988	2,594	734	3,251	0	237	37	5,112
1989	2,161	2	2,061	0	2,725	383	4,220
1989 – Sept.	18	2	–1,659	0	–188	1,159	–1,643
Oct.	32	0	4,372	0	2,859	–2,236	4,404
Nov.	16	0	–1,480	0	–340	630	–1,465
Dec.	298	0	764	0	373	–360	1,062
1990 – Jan.	0	0	9,278	0	10,777	–420	9,278
Feb.	15	0	–2,652	0	–2,368	0	–2,636
Mar.	25	0	–8,457	0	–8,256	398	–8,433
Apr.	30	..	–4,970	0	–3,115	1,106	–4,940
May	17	0	410	0	305	–1,034	426
June	0	0	189	0	3,247	–370	189
July	14	152	5,372	0	5,607	–100	5,234
Aug.	42	244	–5,685	0	–5,406	275	–5,888
Sept.	(982)	(129)	(–6,858)	0	–3,703	145	(–6,005)

Table a23 cont.

BI-UIC operations in government securities

(billions of lire)

	Primary market		Open market					
				of which: repurchase agreements				
	Subscriptions	Redemptions	Total	Financing of subscriptions	Other purchases	Sales	Variations in BI-UIC portfolio
			Other government securities				
1986	6,638	4,620	191	–	572	0	2,209
1987	5,704	2,429	–1,081	–	–189	0	2,193
1988	4,777	4,294	–1,349	–	–398	0	–867
1989	2,042	1,131	2,297	–	307	50	3,208
1989 – Sept.	33	0	–1,405	–	20	1,782	–1,372
Oct.	47	0	2,498	–	316	–1,782	2,544
Nov.	209	13	656	–	–386	0	853
Dec.	11	9	635	–	320	50	637
1990 – Jan.	633	625	4,201	–	3,390	–50	4,210
Feb.	272	261	791	–	–1,226	0	802
Mar.	695	201	–1,129	–	–2,394	100	–636
Apr.	49	1,264	185	–	–50	25	–1,030
May	577	1,503	–469	–	–50	–25	–1,395
June	13	38	–686	–	307	–100	–712
July	988	2,265	4,359	–	3,359	0	3,082
Aug.	230	218	–231	–	–2,328	200	–220
Sept.	(465)	(115)	(–1,222)	–	–1,338	–150	(–872)
			TOTAL				
1986	39,109	27,979	–1,823	1,797	116	0	9,307
1987	43,410	30,558	–14,004	–1,035	–3,105	0	–1,152
1988	31,383	21,811	–10,601	–614	–415	37	–1,029
1989	23,091	16,540	–2,106	1,342	3,032	433	4,445
1989 – Sept.	51	1,761	–3,149	416	–168	2,941	–4,859
Oct.	654	193	5,612	–311	3,175	–4,018	6,073
Nov.	2,125	13	–2,494	–555	–640	630	–382
Dec.	309	9	3,119	1,915	607	–310	3,419
1990 – Jan.	633	644	11,166	–1,826	14,950	–470	11,155
Feb.	1,687	1,867	–1,875	479	–3,997	0	–2,055
Mar.	2,919	2,519	–11,992	–723	–11,030	498	–11,592
Apr.	1,078	2,340	–4,540	910	–3,165	1,131	–5,801
May	594	1,533	–764	–910	255	–1,059	–1,703
June	2,313	393	1,912	1,170	3,579	–470	3,832
July	2,302	4,008	11,819	–20	9,696	–100	10,112
Aug.	1,721	1,167	–7,187	–900	–8,199	475	–6,633
Sept.	(1,947)	(759)	(–11,308)	653	–5,331	–5	(–10,120)

Bank of Italy repurchase agreements

(billions of lire)

	Amount offered	Amount taken up	Maturity (days)		Yields	
			Minimum	Maximum	Minimum	Weighted average
1988 – 23 Feb.	1,000	1,000	7	7	11.90	11.90
1988 – 25 "	4,000	4,000	4	5	11.85	11.93
1988 – 4 Mar.	2,750	2,750	2	7	12.05	12.19
1988 – 17 "	1,500	1,500	15	15	13.10	13.13
1988 – 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
1989 – 5 June	3,000	3,000	4	7	13.90	14.03
1989 – 25 July	3,000	3,000	3	6	13.60	13.90
1989 – 25 Oct.	3,500	3,500	6	14	12.85	13.06
1989 – 23 Nov.	2,500	2,500	24	25	10.75	12.10
1989 – 27 "	1,500	1,301	2	3	10.70	11.82
1989 – 4 Dec.	4,000	3,813	3	9	10.75	11.18
1989 – 5 "	4,000	4,000	2	7	11.95	12.15
1989 – 11 "	1,000	1,000	7	7	13.05	13.05
1989 – 15 "	2,000	2,000	6	7	13.35	13.66
1989 – 27 "	3,500	3,500	2	6	13.45	13.80
1990 – 17 Jan.	2,000	2,000	28	28	13.05	13.24
1990 – 23 "	2,000	2,000	22	23	13.10	13.25
1990 – 24 "	8,000	8,000	1	22	11.00	12.80
1990 – 25 "	6,000	6,000	13	19	11.90	12.28
1990 – 2 Feb.	2,000	2,000	10	10	12.10	12.64
1990 – 7 "	2,500	2,500	20	22	12.70	12.92
1990 – 12 "	2,500	2,500	3	17	12.75	13.01
1990 – 13 "	1,250	1,250	6	16	12.80	13.06
1990 – 14 "	2,500	2,500	6	8	12.75	13.11
1990 – 23 "	4,500	4,500	6	21	12.75	12.97
1990 – 26 "	6,000	5,340	2	21	11.55	12.29
1990 – 19 Mar.	2,000	2,000	2	14	12.95	13.15
1990 – 26 "	2,000	2,000	2	7	12.95	13.17
1990 – 18 May	1,250	1,250	3	14	13.25	13.39
1990 – 24 "	1,000	1,000	6	7	12.05	12.22
1990 – 25 "	1,750	1,750	5	6	12.00	12.17
1990 – 4 June	6,000	5,220	9	10	10.55	11.71
1990 – 5 "	7,000	5,680	2	8	9.00	10.78
1990 – 12 "	1,000	1,000	1	8	10.50	10.51
1990 – 14 "	4,000	4,000	5	7	9.85	10.27
1990 – 25 "	5,500	5,085	1	16	9.50	10.39
1990 – 3 July	2,000	2,000	3	10	10.50	10.62
1990 – 5 "	4,000	4,000	6	7	9.25	9.81
1990 – 24 "	8,000	8,000	13	16	9.30	9.55
1990 – 25 "	5,000	5,000	7	16	9.25	9.43
1990 – 6 Aug.	2,000	2,000	11	11	9.25	9.39
1990 – 8 "	1,000	1,000	13	13	9.35	9.45
1990 – 9 "	3,500	3,500	12	25	9.25	9.38
1990 – 22 "	3,500	2,045	11	11	7.35	8.06
1990 – 27 "	6,000	5,827	2	7	8.05	8.56

Table a25

Bank of Italy financing of purchases at Treasury bill auctions

(billions of lire)

	Maximum amount	Actual amount	Maturity (days)
1988 – 15 July	1,661	391	5
1988 – 29 "	7,528	1,638	4
1988 – 16 Aug.	2,072	0	2
1988 – 30 "	6,250	968	2
1988 – 15 Sept.	2,193	379	6
1988 – 30 "	8,462	743	3
1988 – 14 Oct.	1,889	453	6
1988 – 31 "	7,480	1,080	3
1988 – 15 Nov.	1,422	23	3
1988 – 30 "	6,138	350	19
1988 – 15 Dec.	1,159	148	5
1988 – 30 "	9,226	728	3
1989 – 16 Jan.	3,004	238	4
1989 – 30 "	11,154	580	14
1989 – 14 Feb.	3,614	782	3
1989 – 28 "	6,884	966	2
1989 – 15 Mar.	1,438	65	6
1989 – 15 May	2,801	50	3
1989 – 30 "	6,938	80	2
1989 – 15 June	2,175	115	1
1989 – 30 "	8,367	1,146	3
1989 – 14 July	1,499	105	5
1989 – 31 "	8,498	1,048	4
1989 – 16 Aug.	3,163	760	2
1989 – 31 "	7,891	605	5
1989 – 15 Sept.	2,781	90	3
1989 – 29 "	9,608	1,021	4
1989 – 16 Oct.	3,145	620	2
1989 – 31 "	9,011	710	2
1989 – 30 Nov.	8,030	155	1
1989 – 15 Dec.	2,880	558	7
1989 – 29 "	3,601	2,070	4
1990 – 15 Jan.	3,747	885	8
1990 – 30 "	11,772	269	2
1990 – 14 Feb.	4,396	628	7
1990 – 28 "	9,265	723	1
1990 – 30 Apr.	10,252	910	2
1990 – 15 May	3,596	300	2
1990 – 15 June	2,658	584	4
1990 – 28 "	7,033	1,170	4
1990 – 16 July	2,946	542	2
1990 – 31 "	9,622	1,150	2
1990 – 16 Aug.	3,268	55	5
1990 – 31 "	8,172	250	3
1990 – 28 Sept.	9,165	903	3
1990 – 15 Oct.	4,175	87	2

Table a26

Bank of Italy reverse repurchase agreements

(billions of lire)

	Amount offered	Amount taken up	Maturity (days)		Yields	
			Minimum	Maximum	Maximum	Weighted average
1989 – 12 Sept.	2,500	2,500	17	17	12.85	12.65
1989 – 13 "	2,000	2,000	12	16	12.35	12.17
1989 – 14 "	2,000	2,000	11	15	12.55	12.36
1989 – 18 "	3,000	3,000	7	11	12.60	12.47
1989 – 21 "	750	750	4	4	11.65	11.34
1989 – 28 "	1,000	1,000	18	18	12.80	12.76
1989 – 29 "	3,000	3,000	17	32	12.70	12.62
1989 – 2 Oct.	1,250	1,250	29	29	12.75	12.57
1989 – 6 "	2,000	2,000	19	25	13.00	12.74
1989 – 11 "	1,750	1,750	14	20	12.90	12.80
1989 – 12 "	1,500	1,500	13	19	12.60	12.46
1989 – 13 "	1,750	1,750	12	18	12.70	12.52
1989 – 18 "	1,000	1,000	7	7	12.45	12.26
1989 – 3 Nov.	1,500	1,500	12	12	11.70	11.33
1989 – 7 "	1,500	1,500	8	8	12.70	12.48
1989 – 15 "	4,500	4,500	12	15	11.95	11.78
1989 – 17 "	1,500	1,500	7	18	12.40	11.95
1990 – 11 Jan.	1,500	1,500	13	14	12.65	12.55
1990 – 7 Mar.	2,000	2,000	16	19	13.00	12.84
1990 – 12 "	2,500	2,500	7	11	12.80	12.69
1990 – 2 Apr.	5,000	5,000	15	15	10.70	10.47
1990 – 3 "	3,500	3,500	2	2	7.20	4.74
1990 – 4 "	3,000	3,000	22	26	11.55	11.35
1990 – 6 "	2,000	2,000	11	24	11.90	11.63
1990 – 13 "	3,000	3,000	13	17	10.65	10.52
1990 – 17 "	2,500	2,500	9	10	11.45	11.22
1990 – 18 "	3,000	3,000	8	9	10.90	10.41
1990 – 19 "	1,500	1,500	7	8	11.95	11.74
1990 – 20 "	1,000	1,000	6	7	10.50	10.46
1990 – 30 "	1,000	1,000	28	30	10.90	10.55
1990 – 2 May	2,500	2,500	26	29	10.75	10.56
1990 – 9 "	1,000	1,000	16	21	11.95	11.62
1990 – 11 "	3,000	3,000	13	19	12.30	12.02
1990 – 5 Sept.	3,000	3,000	9	9	7.10	6.69
1990 – 7 "	2,500	2,500	7	7	6.00	5.80
1990 – 11 "	2,000	2,000	17	17	8.80	8.24
1990 – 13 "	4,000	4,000	12	15	8.20	7.78
1990 – 14 "	3,000	3,000	11	14	7.20	6.97
1990 – 18 "	3,000	3,000	7	7	5.60	5.19
1990 – 19 "	1,250	1,250	6	9	5.10	4.98
1990 – 1 Oct.	7,500	6,642	14	24	10.50	9.46
1990 – 5 "	1,000	1,000	17	26	10.60	10.33
1990 – 10 "	1,000	1,000	21	21	11.35	11.16
1990 – 11 "	750	750	20	20	11.40	11.11
1990 – 12 "	1,750	1,750	19	19	11.30	11.09
1990 – 15 "	2,000	2,000	10	10	10.90	10.78

Treasury bill auctions

	Maturing bills: Market	Maturing bills: BI	Maturing bills: Total	Bills offered	Maturity (days)	Market demand	Bills allotted at auction: Market	Bills allotted at auction: BI	Bills allotted at auction: Total	Price	Yield: Simple	Yield: Compound
3-month												
1990 – mid-Apr.	3,995	5	4,000	4,500	90	7,865	4,500	0	4,500	97.05	12.33	12.91
end- "	11,995	5	12,000	12,500	92	14,842	12,500	0	12,500	97.04	12.10	12.66
mid-May	4,000	0	4,000	3,500	93	4,550	3,500	0	3,500	97.05	11.93	12.47
end- "	10,000	0	10,000	9,000	93	8,531	8,456	0	8,456	97.19	11.35	11.84
mid-June ...	3,610	140	3,750	2,000	91	3,604	2,000	0	2,000	97.46	10.45	10.87
end- "	10,785	215	11,000	9,000	92	8,882	8,700	300	9,000	97.38	10.67	11.11
mid-July	3,635	865	4,500	3,000	91	4,225	3,000	0	3,000	97.33	11.00	11.47
end- "	11,780	720	12,500	11,500	91	11,798	11,200	300	11,500	97.31	11.09	11.56
mid-Aug.	3,275	225	3,500	3,000	91	4,252	3,000	0	3,000	97.32	11.05	11.51
end- "	8,247	209	8,456	9,500	91	11,247	9,500	0	9,500	97.28	11.21	11.70
mid-Sept. ...	1,970	30	2,000	4,250	91	10,220	4,250	0	4,250	97.43	10.58	11.01
end- "	8,523	477	9,000	10,500	94	12,835	10,500	0	10,500	97.50	9.96	10.33
mid-Oct.	2,980	20	3,000	4,000	92	5,520	4,000	0	4,000	97.36	10.76	11.20
6-month												
1990 – mid-Apr.	3,500	0	3,500	4,750	181	5,540	4,500	250	4,750	94.08	12.69	13.10
end- "	12,975	25	13,000	14,000	183	16,336	14,000	0	14,000	94.07	12.57	12.97
mid-May	3,490	10	3,500	4,000	184	6,552	4,000	0	4,000	94.17	12.28	12.65
end- "	10,500	0	10,500	11,000	184	13,662	11,000	0	11,000	94.60	11.32	11.64
mid-June ...	3,000	0	3,000	4,000	182	4,175	4,000	0	4,000	94.82	10.96	11.26
end- "	12,000	0	12,000	13,500	186	13,007	12,300	1,200	13,500	94.70	10.98	11.28
mid-July	4,500	0	4,500	5,500	183	4,893	4,500	1,000	5,500	94.65	11.27	11.59
end- "	12,250	0	12,250	12,500	183	13,729	12,500	0	12,500	94.66	11.25	11.57
mid-Aug.	4,741	9	4,750	5,250	182	4,932	4,800	450	5,250	94.60	11.45	11.78
end- "	13,279	221	13,500	13,500	181	13,623	13,494	0	13,494	94.46	11.83	12.18
mid-Sept. ...	4,250	0	4,250	4,500	181	7,091	4,500	0	4,500	94.49	11.76	12.11
end- "	13,000	0	13,000	14,000	182	19,091	13,999	0	13,999	94.53	11.60	11.94
mid-Oct.	4,750	0	4,750	5,750	182	6,673	5,750	0	5,750	94.57	11.52	11.85
12-month												
1990 – mid-Apr.	1,771	979	2,750	3,750	363	4,292	3,000	750	3,750	88.45	13.13	–
end- "	8,438	62	8,500	10,000	365	11,763	10,000	0	10,000	88.40	13.12	–
mid-May	1,980	20	2,000	3,000	365	5,063	3,000	0	3,000	88.60	12.87	–
end- "	5,500	0	5,500	7,000	365	9,265	7,000	0	7,000	89.25	12.04	–
mid-June ...	1,250	0	1,250	2,500	364	3,239	2,500	0	2,500	89.55	11.70	–
end- "	7,726	0	7,726	10,000	365	9,425	9,200	800	10,000	89.45	11.79	–
mid-July	1,622	0	1,622	2,500	364	3,324	2,500	0	2,500	89.35	11.95	–
end- "	9,249	7	9,256	10,500	364	11,128	10,500	0	10,500	89.40	11.89	–
mid-Aug.	1,980	20	2,000	2,500	365	2,914	2,500	0	2,500	89.25	12.04	–
end- "	8,980	20	9,000	10,000	364	9,608	9,000	1,000	10,000	88.95	12.46	–
mid-Sept. ...	2,500	0	2,500	2,750	367	3,922	2,750	0	2,750	88.95	12.36	–
end- "	9,492	8	9,500	10,500	367	12,046	10,000	500	10,500	89.00	12.29	–
mid-Oct.	2,995	5	3,000	3,750	365	4,556	3,750	0	3,750	89.00	12.36	–

Table a28

Interest rates

	Rates on BI loans		Yields					
	Base	Actual on fixed term advances	Treasury bill 3-month	Treasury bill 6-month	Treasury bill 12-month	Treasury bill average	Treasury bonds	Bonds of industrial credit institutions
1985	15.00	16.17	13.23	13.10	13.14	13.14	13.67	13.27
1986	12.00	13.03	10.81	10.25	10.01	10.25	10.05	9.05
1987	12.00	12.37	11.64	11.66	11.39	11.55	10.50	11.19
1988	12.50	14.05	12.08	11.44	11.51	11.68	10.70	11.05
1989 – Sept.	13.50	–	12.61	12.99	13.03	12.87	11.84	11.67
Oct.	13.50	–	13.22	13.30	13.17	13.23	12.03	11.59
Nov.	13.50	13.50	14.00	13.73	13.43	13.74	12.32	11.79
Dec.	13.50	14.74	13.50	13.37	13.04	13.32	12.30	12.08
1990 – Jan.	13.50	14.21	12.97	12.99	12.90	12.95	12.28	11.83
Feb.	13.50	14.44	12.74	12.63	12.77	12.71	12.41	12.03
Mar.	13.50	13.50	13.28	13.02	13.12	13.13	12.43	12.15
Apr.	13.50	–	12.73	13.00	13.12	12.94	12.20	12.11
May.	12.50	14.21	12.02	11.91	12.29	12.05	11.97	12.18
June	12.50	12.62	11.07	11.28	11.77	11.37	11.32	12.07
July	12.50	12.86	11.54	11.58	11.90	11.66	11.26	11.69
Aug.	12.50	13.00	11.65	12.08	12.37	12.03	11.79	12.02
Sept.	12.50	–	10.53	11.98	12.31	11.60	11.60	12.05

	Bank rates							Interbank rates
	Lending in lire			Deposit rates		Certificates of deposit		
	ABI prime rate	Minimum	Average	Maximum	Average	6-month	12-month	
1985	15.88	15.29	16.86	13.43	10.11	13.21	13.61	14.93
1986	13.00	12.54	13.93	10.69	7.61	10.69	10.34	11.51
1987	13.00	12.34	13.79	9.81	6.94	10.18	10.29	10.76
1988	13.00	12.34	13.67	9.62	6.77	9.98	10.06	11.73
1989 – Sept.	14.00	12.98	14.27	9.80	6.93	10.41	10.50	12.67
Oct.	14.00	13.01	14.30	9.84	6.94	10.58	10.50	12.68
Nov.	14.00	13.02	14.25	9.88	6.97	10.71	10.55	12.70
Dec.	14.00	12.99	14.18	9.92	7.01	10.75	10.54	12.76
1990 – Jan.	14.00	13.01	14.29	9.87	7.05	10.77	10.56	12.85
Feb.	14.00	13.12	14.45	9.88	6.99	10.79	10.58	12.92
Mar.	14.00	13.13	14.53	9.91	7.01	10.81	10.63	13.06
Apr.	14.00	13.13	14.54	10.00	7.07	10.83	10.66	12.64
May.	13.25	13.03	14.46	9.96	7.01	10.81	10.66	12.32
June	13.00	12.65	14.18	9.54	6.54	10.52	10.46	11.98
July	13.00	12.39	13.88	9.55	6.56	10.45	10.48	11.72
Aug.	13.00	12.35	13.79	9.55	6.58	10.44	10.41	11.60
Sept.	13.00	12.30	13.80	9.58	6.63	10.50	10.49	10.90

Principal assets and liabilities of banks

(billions of lire)

	ASSETS										
	Bank reserves	Loans		Securities			Shares and equity interests	Bad debts	Interbank accounts	Accounts with special credit institutions	Interest-bearing external assets
		in lire	in foreign currency		of which: Treasury bills	of which: Other government securities					
1985	85,872	227,027	24,949	202,491	24,398	109,311	9,340	17,946	87,934	9,291	80,060
1986	88,557	245,735	28,523	214,764	27,802	113,354	11,640	21,105	97,121	8,861	77,871
1987	98,085	263,248	33,889	220,992	23,583	121,030	12,979	24,205	92,842	9,386	73,682
1988	106,721	307,815	43,602	208,701	20,939	118,542	14,641	24,944	88,645	9,485	80,268
1989 – Sept.	114,910	332,899	54,750	183,522	13,702	105,126	17,964	26,781	67,805	7,161	88,437
Oct.	118,118	341,866	53,496	179,708	16,346	98,912	18,363	27,164	62,377	7,917	89,805
Nov.	119,682	355,735	53,032	181,203	15,217	102,524	18,510	27,279	70,432	8,135	92,729
Dec.	116,823	374,248	52,935	200,395	22,171	112,658	19,599	26,166	104,171	10,420	100,608
1990 – Jan.	127,674	379,638	53,506	161,139	11,247	86,162	19,426	26,703	75,191	9,136	83,258
Feb.	124,150	376,012	55,461	155,924	11,270	81,971	19,381	26,851	66,833	8,507	82,269
Mar.	125,915	368,308	57,146	163,040	15,146	86,161	19,339	26,545	72,872	7,871	87,386
Apr.	123,960	373,764	58,086	171,675	20,147	90,403	19,737	26,963	66,115	7,993	85,980
May	127,333	378,761	60,915	168,794	15,100	92,471	19,796	27,157	71,976	7,993	90,111
June	121,586	385,161	61,415	165,694	16,800	....	....	....	....	....	....
July	125,873	398,261	61,465	151,594	15,300	....	....	....	....	....	....
Aug.	125,562	388,861	60,465	159,594	17,300	....	....	....	....	....	....
Sept.	123,748	381,161	61,865	173,594	20,800	....	....	....	....	....	....

	LIABILITIES										
	Deposits	of which: current accounts	of which: CDs	Residents' foreign currency accounts	Funds managed for public bodies	Loans from BI-UIC	Interbank accounts	Accounts with special credit institutions	Capital and reserves	Interest-bearing external liabilities	Other items
1985	454,170	245,016	13,309	1,551	4,990	8,740	98,603	4,505	52,132	100,246	19,975
1986	496,101	277,188	21,465	1,328	3,521	4,412	108,168	5,109	61,799	99,295	14,443
1987	531,819	299,903	31,968	1,012	2,220	5,718	103,966	5,777	72,433	103,804	2,560
1988	571,564	324,769	55,929	2,203	1,834	5,730	98,018	5,787	77,740	122,959	–1,014
1989 – Sept.	570,320	314,467	82,056	2,410	1,811	3,454	79,628	5,700	85,832	144,711	362
Oct.	574,981	317,407	84,851	3,229	1,796	4,913	73,255	5,247	85,818	148,272	1,304
Nov.	571,689	312,621	86,018	2,911	1,751	4,878	80,415	5,044	86,050	147,647	26,351
Dec.	625,348	358,420	85,888	2,908	1,687	6,298	119,609	6,337	87,468	152,955	2,755
1990 – Jan.	603,878	335,521	92,539	2,927	1,713	9,956	81,609	6,656	96,709	138,215	–5,991
Feb.	594,871	327,211	96,562	3,302	1,702	4,890	75,646	6,337	95,990	139,324	–6,674
Mar.	598,021	329,631	99,552	3,066	1,680	4,866	82,302	6,816	95,015	143,962	–7,308
Apr.	606,019	337,237	100,535	3,212	1,727	4,844	74,969	6,240	93,988	139,637	3,636
May	595,736	326,991	102,824	3,131	1,729	4,868	78,621	5,489	94,011	147,603	21,649
June	607,436	336,491	105,224	....	....	5,560	....	....	....	....	....
July	607,186	334,491	106,624	....	....	4,907	....	....	....	....	....
Aug.	604,386	330,591	108,424	....	....	4,921	....	....	....	....	....
Sept.	619,686	341,791	110,824	....	....	4,917	....	....	....	....	....

Table a30

Principal assets and liabilities of the special credit institutions

(billions of lire)

	ASSETS										
	Cash and liquid assets		Loans				Securities			Foreign activity	
	of which: interbank deposits		Total	of which: industrial	of which: real estate	On behalf of the Treasury	Total	of which: Treasury bills	of which: other govern-ment securities		of which: buyer credits
1985	4,087	4,601	137,435	73,771	36,096	7,145	19,099	906	15,535	3,781	3,543
1986	4,470	4,574	154,781	84,858	40,823	6,089	16,555	678	13,833	3,187	2,961
1987	5,045	5,159	175,788	95,796	48,913	5,036	15,499	797	9,614	4,361	4,064
1988	5,340	5,461	202,951	110,913	58,095	3,879	17,188	887	11,447	4,674	4,123
1989 – Sept. ...	4,687	4,771	226,115	124,428	65,403	2,842	16,115	897	10,163	5,322	4,376
Oct.	4,637	4,715	230,512	127,151	66,714	2,842	14,806	532	9,331	5,299	4,356
Nov.	4,458	4,548	233,292	128,529	67,852	2,842	14,814	482	9,094	5,307	4,328
Dec.	4,947	5,099	238,558	136,277	68,353	2,791	14,146	590	9,120	5,625	4,344
1990 – Jan.	5,813	5,875	240,069	137,060	68,923	2,238	14,713	410	9,011	5,356	4,249
Feb.	5,687	5,736	244,380	139,834	70,107	2,238	15,158	436	8,976	5,573	4,262
Mar.	5,851	6,227	248,072	142,221	71,285	2,238	13,650	410	7,831	5,841	4,679
Apr.	5,918	5,973	250,399	143,471	72,304	2,238	13,477	478	7,599	5,848	4,698
May	5,375	5,825	253,596	145,459	73,524	2,238	13,970	332	8,056	5,771	4,750
June	5,404	5,768	253,628	145,879	73,701	1,757	15,619	361	9,467	6,159	4,993
July	(5,153)	(5,514)	(258,274)	(148,821)	(75,164)	1,757	(17,247)	(836)	(10,089)	(6,057)	(4,899)
Aug.	(5,595)	(5,953)	(261,290)	(149,989)	(75,917)	1,757	(16,903)	(523)	(10,296)	(6,072)	(4,964)
Sept. ...	....	....	(263,063)	(150,421)	(76,956)	....	....	....	....	....	....

	LIABILITIES										
	Certificates of deposits		Bonds								
	of which: maturing within 24 months		Total	of which: industrial	of which: real estate	Bonds on behalf of the Treasury	Interbank current accounts	Public funds	*Medio-credito centrale*	Foreign liabilities	Other
1985	18,046	25,549	95,022	37,736	36,192	7,145	6,010	5,365	2,521	20,051	10,398
1986	20,837	28,258	102,193	41,234	39,693	6,089	5,779	6,707	2,538	21,878	11,742
1987	24,375	30,878	113,681	46,137	45,944	5,036	6,104	7,537	3,038	26,861	12,709
1988	33,376	43,837	121,239	47,574	51,720	3,949	6,656	7,911	3,541	32,785	14,238
1989 – Aug.	36,526	49,955	125,991	46,938	55,566	2,874	5,244	8,349	4,224	41,546	14,967
Sept. ...	36,326	50,025	126,751	47,124	55,879	2,868	5,326	8,370	4,234	42,126	15,465
Oct.	36,230	50,396	128,261	48,002	56,183	2,867	5,908	8,300	4,386	42,493	15,562
Nov.	36,945	50,994	128,840	47,812	56,786	2,866	6,292	8,511	4,434	43,621	15,244
Dec.	38,164	52,804	129,378	51,209	56,957	2,863	8,016	8,806	4,237	46,266	13,849
1990 – Jan.	38,350	53,190	128,521	50,080	57,217	2,319	6,995	8,773	4,156	46,896	17,402
Feb.	39,478	54,758	129,814	50,077	58,024	2,305	6,681	8,647	4,204	47,580	19,096
Mar.	40,365	56,345	129,981	50,067	58,167	2,262	6,427	8,712	4,078	49,454	18,770
Apr.	41,148	57,350	130,750	50,024	58,905	2,258	5,933	8,719	4,067	49,407	19,451
May	42,115	58,660	131,346	50,016	59,490	2,258	6,118	8,708	4,052	51,651	18,608
June	43,062	60,097	131,739	50,420	59,442	2,251	7,058	8,775	4,060	53,310	15,642
July	(43,635)	(60,947)	(131,264)	(49,773)	59,641	1,878	(6,519)	(8,706)	(4,089)	(54,553)	(20,894)
Aug.	(43,926)	(61,464)	(132,042)	(50,015)	59,930	1,859	(6,513)	(8,763)	(4,134)	(56,989)	(20,210)

Table a31

Loans by branch of economic activity

(billions of lire; percentage changes)

July 1990

	BANKS				SPECIAL CREDIT INSTITUTIONS			
	Enterprises		Producer households		Enterprises		Producer households	
	Out-standing	12-month % change	Out-standing	12-month % change	Out-standing	12-month % change	Out-standing	12-month % change
Agricultural, forestry and fischery products	8,722	12.5	5,303	10.6	7,203	7.0	4,594	11.2
Energy products	5,306	–30.4	45	28.6	6,731	35.4	8	14.3
Ferrous and non-ferrous ores and metals	7,711	8.2	284	15.0	3,201	10.9	22	10.0
Non-metallic mineral products	7,610	22.6	1,525	9.3	3,306	20.6	178	10.6
Chemical products	9,685	3.3	370	6.0	4,248	11.4	35	20.7
Metal products except machinery and transport equipment	11,854	16.7	3,892	17.2	3,800	17.0	282	25.9
Agricultural and industrial machinery	13,395	7.9	1,718	15.7	7,879	11.8	350	33.1
Office and data processing machines; precision and optical instruments	3,803	37.6	271	22.1	2,432	91.5	22	83.3
Electrical goods	9,815	13.4	864	19.3	4,489	8.7	68	15.3
Motor vehicles	5,525	30.1	475	17.9	4,908	22.1	62	17.0
Food products, beverages and tobacco products	14,865	12.3	2,267	12.7	7,090	8.9	437	16.8
Textiles, leathers, footwear and clothing	23,824	12.1	5,039	9.5	4,293	11.1	376	24.9
Paper, products of printing and publishing	7,135	20.9	1,132	17.4	2,757	31.6	87	20.8
Rubber and plastic products	5,109	15.2	1,076	12.9	1,366	11.7	68	19.3
Other manufacturing products	7,939	11.4	3,516	14.2	2,047	5.4	320	17.6
Building and construction	29,329	26.2	10,067	16.0	21,083	8.1	2,688	8.4
Wholesale and retail trade	49,376	16.0	22,053	15.5	8,628	20.3	3,574	26.6
Lodging and catering services	3,385	38.1	2,663	25.1	2,864	16.7	1,472	23.8
Inland transport services	4,839	6.0	2,313	12.6	12,003	44.6	124	25.3
Maritime and air transport services	1,192	44.8	51	24.4	1,940	13.3	16	–20.0
Auxiliary transport services	1,785	23.2	230	12.7	2,123	9.7	34	21.4
Communication services	600	10.9	12	33.3	8,431	17.9	0	....
Other market services	25,402	36.5	5,246	25.4	12,377	26.1	1,200	34.1
TOTAL BORROWINGS	258,206	16.0	70,412	15.4	135,199	18.0	16,017	18.1
TOTAL FACILITIES GRANTED	478,367	5.9	92,735	14.6	180,525	19.2	17,462	17.6

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	
1984	63,798	4,315	2,035	70,148	6,792	255	11,948	(912)	50,240	9,774
1985	94,309	5,178	2,195	101,682	8,910	504	28,937	(11,656)	51,676	12,220
1986	88,043	6,805	6,071	100,919	7,911	830	7,427	27,723	57,029	18,872
1987	58,146	11,012	4,038	73,195	1,420	485	10,459	–3,845	64,677	10,432
1988	61,837	7,966	709	70,512	4,229	252	–8,122	–8,961	83,115	9,697
1989	65,547	8,205	35	73,786	7,957	–6	–9,660	–3,853	79,348	18,370
1988 – 2nd qtr.	13,391	2,701	560	16,652	–158	298	–1,235	–3,215	20,962	1,598
3rd "	11,659	1,533	–28	13,165	2,062	196	1,682	–2,192	11,417	2,454
4th "	24,735	1,573	–70	26,239	3,462	–116	8,907	–361	14,346	3,940
1989 – 1st qtr.	5,970	237	–1,028	5,178	–1,825	–120	–12,800	–3,078	23,002	1,852
2nd "	18,189	3,353	675	22,217	6,396	203	–5,880	–435	21,933	2,441
3rd "	19,645	2,071	–21	21,695	–3,412	–182	20	480	24,789	5,139
4th "	21,743	2,544	408	24,696	6,798	93	9,000	–820	9,624	8,937
1990 – 1st qtr.	10,693	1,766	–638	11,821	2,587	–180	–30,310	–1,218	40,942	(3,426)
2nd "	25,872	(2,234)	243	(28,349)	–7,459	–48	(1,100)	3,948	(30,809)	(3,521)
1989 – Aug.	6,367	843	955	8,165	–1,231	–24	500	–57	8,977	641
Sept.	8,776	751	–317	9,210	–3,009	–90	6,330	609	5,371	2,527
Oct.	8,754	1,510	–145	10,120	5,695	241	–6,460	–302	10,946	2,756
Nov.	7,151	579	–50	7,681	–610	–23	2,620	–332	6,025	1,726
Dec.	5,837	455	603	6,895	1,713	–125	12,840	–186	–7,347	4,455
1990 – Jan.	3,232	–857	–699	1,676	13,485	–19	–28,350	–519	17,079	(1,743)
Feb.	5,137	2,459	93	7,689	–1,839	–132	–5,120	–545	15,324	(887)
Mar.	2,324	165	–32	2,456	–9,059	–30	3,160	–154	8,539	(797)
Apr.	5,476	(1,348)	–170	(6,654)	–5,990	–5	3,660	1,973	(7,016)	(1,902)
May	16,473	(327)	484	(17,285)	–969	–12	2,240	1,117	(14,909)	(567)
June	3,923	(560)	–72	(4,411)	–500	–32	(–4,800)	858	(8,884)	(1,052)
July	4,533	(–412)	–1,480	(2,642)	8,365	–173	(–12,600)	836	(6,214)	(4,023)
Aug.	4,849	(714)	–103	(5,460)	....	....	....	–1,096	....	(381)

Issue conditions of government securities

ABI number	Maturity	Date of issue	Price at issue	Yield at issue gross	Yield at issue net	Amount taken up (lire bn.)	Spread	First coupon gross	First coupon net
Treasury credit certificates									
13064	1.11.94	2.11.89	97.75	15.14	13.20	5,000	0.50	6.85	5.9935
13069	1.1.95	5.1.90	97.75	14.80	12.57	5,000	0.50	6.85	5.9935
13074	1.3.95	5.3.90	97.75	14.61	12.74	14,500	0.50	6.85	5.9935
13079	1.5.95	7.5.90	97.75	14.90	12.99	12,000	0.50	6.85	5.9935
13084	1.7.95	3.7.90	100.00	12.90	11.19	11,500	0.50	6.30	5.5125
13085	1.9.95	3.9.90	97.30	14.29	12.47	9,038	0.50	6.30	5.5125
13089	1.10.95	2.10.90	99.00	13.57	11.79	6,000	0.50	6.30	5.5125

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
Treasury bonds								
12662	1.1.94	2.1.90	96.65	14.06	12.27	6,000	6.25	5.4685
12663	1.2.94	1.2.90	95.90	14.34	12.52	3,949	6.25	5.4685
12664	1.3.94	1.3.90	95.90	14.33	12.51	7,426	6.25	5.4685
12665	1.4.92	2.4.90	99.60	13.14	11.39	6,500	6.25	5.4685
12666	1.5.94	2.5.90	96.60	14.08	12.27	5,500	6.25	5.4685
12667	1.6.94	1.6.90	98.80	13.29	11.55	2,500	6.25	5.4685
12668	1.6.97	1.6.90	97.50	13.46	11.70	1,500	6.25	5.4685
12669	16.6.97	18.6.90	98.50	13.50	11.74	7,500	6.25	5.4685
12670	1.7.94	2.7.90	99.50	13.06	11.34	10,500	6.25	5.4685
12671	1.9.94	4.9.90	96.30	14.23	12.42	8,919	6.25	5.4685

ABI number	Maturity	Date of issue	Price at issue	Yield at issue gross	Yield at issue net	Amount taken up (ecu mill.)	Lira/ecu exchange rate at issue	Coupon gross	Coupon net
Treasury certificates in ecus									
13062	26.10.94	26.10.89	100.00	10.14	8.88	1,000	1,505,22	10.15	8.8810
13066	22.11.94	23.11.89	100.00	10.70	9.36	1,000	1,501,85	10.70	9.3625
13071	24.1.95	25.1.90	100.00	11.15	9.76	1,000	1,515,83	11.15	9.7560
13075	27.3.95	27.3.90	100.00	11.99	10.49	1,000	1,502,52	12.00	10.5000
13081	29.5.95	29.5.90	100.00	11.54	10.10	750	1,510,05	11.55	10.1060
13087	26.9.95	26.9.90	101.15	11.57	10.10	1,000	1,543,10	11.90	10.4125

Table a34

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

	Expected yields					Total return indices					
	Treasury credit certificates	Treasury certificates 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
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	8.11	11.67	5.39	10.47	316.26	233.11	101.02	141.33	180.86	167.63
1989	12.71	9.32	12.96	6.65	11.58	348.83	238.78	108.48	148.24	198.46	189.77
1988 – 3rd qtr.	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
1989 – 1st qtr.	12.04	8.77	12.21	6.10	10.99	334.76	238.63	105.09	145.03	191.48	180.19
2nd "	12.61	9.51	13.08	6.27	11.54	343.31	236.10	106.08	148.02	195.63	184.85
3rd "	12.83	9.30	12.88	6.71	11.67	353.28	238.59	110.43	149.83	200.98	197.59
4th "	13.36	9.71	13.65	7.52	12.11	363.99	241.78	112.33	150.10	205.74	196.43
1990 – 1st qtr.	12.99	9.94	13.39	7.82	12.22	376.31	245.54	116.21	153.24	211.50	199.79
2nd "	12.37	10.13	12.36	7.10	11.76	391.55	248.80	122.55	161.23	219.04	208.07
3rd "	11.79	9.97	11.78	6.45	11.60	405.41	259.30	127.40	168.88	225.71	204.42
1989 – Sept.	13.11	9.35	13.07	6.91	11.79	356.49	238.94	111.37	150.26	202.56	200.52
Oct.	13.24	9.53	13.43	7.17	11.95	360.32	241.70	111.66	150.33	204.12	196.32
Nov.	13.44	9.71	13.70	7.58	12.21	363.84	241.19	112.29	149.81	205.51	195.03
Dec.	13.39	9.88	13.83	7.81	12.16	367.80	242.46	113.05	150.16	207.58	197.95
1990 – Jan.	13.14	9.94	13.12	7.75	12.12	371.79	245.03	115.90	152.06	209.74	200.83
Feb.	12.93	9.85	13.47	7.95	12.26	375.87	246.22	115.81	152.63	211.40	198.72
Mar.	12.90	10.04	13.58	7.76	12.29	381.28	245.38	116.93	155.03	213.36	199.81
Apr.	12.86	10.12	13.02	7.27	12.11	386.88	246.11	119.96	158.87	215.97	203.22
May	12.55	10.21	12.53	7.30	11.91	391.07	247.79	122.23	160.36	218.67	207.55
June	11.69	10.07	11.53	6.74	11.27	396.70	252.50	125.46	164.46	222.48	213.43
July	11.52	9.87	11.35	6.29	11.26	402.60	256.75	127.23	168.02	224.56	213.45
Aug.	11.87	9.83	11.94	6.64	11.81	404.39	259.50	126.89	168.08	224.97	202.29
Sept.	11.98	10.21	12.04	6.43	11.74	409.24	261.66	128.09	170.53	227.59	197.53

Table a35

Liquid assets held by the non-state sector

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

	End-of-period amounts				Percentage changes			
	M1	M2A	M2	M3	M1	M2A	M2	M3
1982	212,029	398,642	398,642	472,249	17.1	18.3	18.3	18.4
1983	239,210	444,264	447,521	536,580	12.8	11.4	12.3	13.6
1984	269,575	495,010	502,557	613,241	12.7	11.4	12.3	14.3
1985	297,951	545,205	558,514	684,579	10.5	10.1	11.1	11.6
1986	331,039	590,655	612,120	742,069	11.1	8.3	9.6	8.4
1987	357,151	632,795	664,762	828,394	7.9	7.1	8.6	11.6
1988 – Aug.	345,760	615,218	664,577	860,606	7.7	5.7	8.8	13.5
Sept.	352,666	622,625	673,617	875,391	8.2	6.1	9.3	13.4
Oct.	356,584	627,086	680,213	886,313	8.2	6.1	9.5	13.6
Nov.	348,928	619,366	674,134	881,766	6.5	5.0	8.6	12.1
Dec.	386,038	667,746	723,675	931,290	8.1	5.5	8.9	12.4
1989 – Jan.	363,562	644,620	708,120	930,386	6.7	5.1	8.9	13.3
Feb.	358,671	636,517	704,253	935,316	7.4	6.0	9.8	14.1
Mar.	362,212	639,244	711,120	942,551	8.0	6.5	10.6	14.2
Apr.	370,739	647,236	721,839	958,715	9.0	7.1	11.3	15.5
May	361,227	636,137	713,137	954,112	7.2	5.9	10.3	14.9
June	374,733	647,798	726,802	964,181	9.1	6.5	10.9	14.7
July	378,764	654,610	734,943	972,233	7.9	5.8	10.2	13.6
Aug.	372,231	648,847	730,360	973,369	7.7	5.5	9.9	13.1
Sept.	378,143	653,783	735,839	983,604	7.2	5.0	9.2	12.4
Oct.	380,685	656,768	741,618	990,159	6.8	4.7	9.0	11.7
Nov.	376,977	653,452	739,470	993,490	8.0	5.5	9.7	12.7
Dec.	432,743	718,628	804,517	1,053,414	8.7	5.7	9.4	11.7
1990 – Jan.	404,445	692,457	784,995	1,050,326	11.2	7.4	10.9	12.9
Feb.	395,372	679,774	776,336	1,045,487	10.2	6.8	10.2	11.8
Mar.	397,123	679,751	779,303	1,051,648	9.6	6.3	9.6	11.6
Apr.	405,789	688,645	789,180	1,061,304	9.5	6.4	9.3	10.7
May	393,011	674,077	776,901	1,056,958	8.8	6.0	8.9	10.8
June	405,651	685,897	791,121	1,067,477	8.3	5.9	8.8	10.7
July	408,111	690,762	797,386	1,073,672	7.7	5.5	8.5	10.4
Aug.	399,790	682,472	790,896	1,068,612	7.4	5.2	8.3	9.8
Sept.	411,901	695,038	805,862	1,089,152	8.9	6.3	9.5	10.7

Table a36

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

(changes in billions of lire)

	Financial assets	Financing of the non-state sector by: Banks	Special credit institutions	Bonds	State sector	Shares	Other domestic liabilities	Foreign sector	State sector	Foreign sector	Unclassified
1984	138,839	37,004	14,469	1,969	10,780	6,824	3,427	1,573	82,507	–7,254	–12,459
1985	145,949	33,059	11,409	1,700	11,837	9,877	4,339	3,108	97,325	–7,761	–18,943
1986	168,056	23,951	16,896	5,120	9,216	20,534	5,217	–1,797	97,480	–1,311	–7,250
1987	168,153	22,318	20,161	3,640	8,489	7,422	4,839	3,331	102,277	–3,144	–1,180
1988	192,788	53,750	24,196	233	10,705	–1,921	1,839	12,735	111,002	–12,285	–7,467
1989	220,272	77,572	30,366	–454	12,475	3,661	2,054	21,430	118,291	(–25,709)	–19,415
1988 – Aug.	8,606	–5,705	2,091	–79	1,153	–397	–23	675	8,721	1,470	700
Sept.	15,834	–709	2,759	131	375	1,271	366	–1,450	18,202	–1,518	–3,592
Oct.	13,698	8,704	2,218	–474	1,184	–972	605	3,226	7,811	–916	–7,689
Nov.	6,696	11,474	2,058	546	1,041	–1,101	–137	1,215	14,725	–1,834	–21,291
Dec.	54,627	11,304	3,869	–277	–680	–321	–760	791	6,052	–1,916	36,565
1989 – Jan.	4,677	9,384	–97	–405	1,832	117	–413	–41	863	(–2,489)	–4,074
Feb.	13,162	2,478	3,012	30	2,364	–373	502	1,244	9,303	(–4,420)	–979
Mar.	16,479	–1,853	3,266	–560	1,530	–22	192	3,440	12,648	(–3,634)	1,472
Apr.	21,198	7,202	1,273	656	883	–768	434	5,403	12,145	(–3,173)	–2,859
May	1,783	9,098	2,962	49	814	–1,189	–154	2,031	11,721	(–2,370)	–21,180
June	17,479	5,940	–323	–200	567	–658	712	2,520	–13,467	(–2,145)	24,533
July	19,114	12,905	3,441	–763	506	1,573	219	–436	12,015	(–611)	–9,735
Aug.	9,069	–6,458	2,351	1,012	605	–609	510	452	8,164	(1,165)	1,878
Sept.	15,447	–1,159	2,669	–249	942	1,860	573	1,866	17,255	(–2,242)	–6,069
Oct.	18,557	7,649	3,596	–286	921	1,432	389	1,144	11,284	(–2,061)	–5,510
Nov.	17,908	14,952	3,005	–337	1,221	115	–185	2,810	17,932	(–2,493)	–19,113
Dec.	65,399	17,435	5,212	599	290	2,182	–726	995	18,428	(–1,236)	22,220
1990 – Jan.	14,693	7,016	1,499	–774	1,352	1,743	850	1,834	–5,655	(220)	6,608
Feb.	11,860	–2,688	3,569	–179	2,699	887	1,521	1,773	12,021	(–3,472)	–4,271
Mar.	21,812	–5,413	3,760	4	1,643	797	–202	7,697	14,358	(–2,264)	1,432
Apr.	21,865	8,392	2,348	22	246	1,902	748	4,434	16,032	(–3,598)	–8,661
May	7,532	8,143	2,923	438	–346	567	–626	606	13,658	(–1,496)	–16,336
June	18,351	7,416	–1,571	–44	1,054	1,052	885	2,278	–10,213	(–2,374)	19,868
July	....	15,655	3,896	–1,487	....	4,023	....	....	6,113	....	....
Aug.	....	–11,083	3,015	–103	....	....	....	....	10,539	....	....
Sept.	....	–6,775	1,773	–32	....	....	....	....	19,017	....	....

Total domestic credit

(changes in billions of lire; % changes)

	Total domestic credit	Loans to the non-state sector	State sector borrowing requirement	Total domestic credit		Loans to the non-state sector	
				3-month	12-month	3-month	12-month
1984	145,151	53,443	91,708	_	20.4	_	17.1
1985	153,435	46,168	107,268	_	17.8	_	12.6
1986	152,676	45,967	106,710	_	15.1	_	11.3
1987	151,991	46,119	105,872	_	13.0	_	10.2
1988	197,171	78,181	118,990	_	15.0	_	15.7
1989	229,930	107,485	122,445	_	15.2	_	18.6
1988 – Aug.	6,039	–3,693	9,732	3.0	13.7	3.8	13.1
Sept.	20,146	2,180	17,966	4.4	14.5	4.0	15.1
Oct.	19,296	10,449	8,847	3.9	14.7	3.6	15.3
Nov.	28,959	14,078	14,881	4.5	15.2	4.1	15.9
Dec.	21,133	14,896	6,237	3.5	15.0	3.7	15.7
1989 – Jan.	10,306	8,882	1,424	3.0	15.4	3.9	16.6
Feb.	18,491	5,520	12,971	2.9	16.1	4.0	18.1
Mar.	13,830	852	12,978	3.4	15.5	4.1	17.6
Apr.	21,270	9,132	12,138	4.1	15.0	4.3	16.5
May	23,790	12,110	11,680	4.1	15.2	4.5	17.2
June	–7,083	5,417	–12,500	2.6	14.5	4.9	17.7
July	26,353	15,583	10,769	2.4	14.3	4.6	17.6
Aug.	4,367	–3,095	7,462	1.9	14.1	4.2	17.9
Sept.	18,098	1,261	16,837	3.7	13.7	3.9	17.6
Oct.	20,257	10,959	9,298	3.5	13.6	3.8	17.4
Nov.	38,617	17,619	20,997	4.5	14.0	4.0	17.6
Dec.	41,635	23,246	18,389	4.7	15.2	4.6	18.6
1990 – Jan.	2,027	7,741	–5,714	3.7	14.5	4.2	18.1
Feb.	11,474	702	10,771	2.6	13.9	3.3	17.1
Mar.	16,448	–1,649	18,096	2.1	13.9	2.0	16.7
Apr.	23,596	10,762	12,834	3.5	13.9	2.9	16.7
May	23,392	11,505	11,887	3.9	13.7	3.6	16.3
June	–3,707	5,801	–9,509	2.6	13.9	4.5	16.2
July	21,092	18,065	3,028	1.9	13.4	4.2	16.2
Aug.	1,156	–8,171	9,327	1.5	13.2	3.5	15.5
Sept.	14,074	–5,034	19,108	2.7	12.8	2.5	14.5

Notes to the Tables

Table a1

Sources: National bulletins, IMF and OECD.

Real GNP: GNP for the United States, Japan and Germany; GDP for France, the United Kingdom, Italy and Canada.

The current account balances of the United States and Italy are seasonally adjusted. The US, Canadian and UK series have been revised from 1984 onwards.

Table a2

Sources: National bulletins, BIS and OECD.

Table a3

Sources: National bulletins and OECD.

Table a4

Sources: National bulletins and OECD.

Wholesale prices: the United States and Italy: total producer prices; France: producer prices of intermediate goods; the United Kingdom and Canada: producer prices of manufactured goods.

Table a5

Sources: National bulletins, BIS, IMF and OECD.

Official reference rates: France: intervention rate; the United Kingdom: base rate; all other countries: discount rate.

Money market rates: the United States: the 3-month Treasury bill rate; Japan: the rate on 2-month private sector securities; Germany, France and the United Kingdom: the 3-month interbank rate; Italy, gross annual yield on 6-month Treasury bills on a deferred basis, weighted according to the amounts sold to operators; Canada: end-of-period rate on 3-month Treasury bills.

Table a6

Sources: National bulletins, BIS, IMF and OECD.

Bond yields (gross): the United States: 10-year securities and Treasury bonds (secondary market); Japan: 10-year government bonds (secondary market); Germany: public sector bonds with maturities of more than 4 years (secondary market); France: long-term government bonds; the United Kingdom: long-term government bonds (20 years); Italy: average gross yield of Treasury bonds quoted on the Milan stock exchange with residual maturities of more than 12 months (weighted according to the amount of outstanding debt). Interest was entirely tax exempt until 1987, subsequently yields are stated gross of withholding tax at the rate of 12.50 per cent. Canada: end-of-period yield on public sector securities with maturities of more than 10 years.

Share indices: the United States: Standard and Poor's composite index; Japan: Topix; Germany: FAZ Aktien; France: CAC Général; the United Kingdom: FT All-Share Index; Italy: MIB; Canada: composite index of the Toronto stock exchange (prices at the close).

Table a7

Source: BIS.

US dollar forward premiums and discounts: the differences between the rates shown in the upper part of the table.

Table a8

Sources: Bank of Italy and IMF.

Gold prices: end of period.

Table a9

Source: Based on Bank of Italy and IMF data.

Nominal effective exchange rates: based on the shares of international trade of the 15 leading industrial countries. For the method of calculation, see the article "New Indices of Real and Nominal Effective Exchange Rates" in Banca d'Italia, *Economic Bulletin*, no. 8, February 1989.

Table a10

Source: Based on IMF, Istat and OECD data.

Real effective exchange rates: based on the wholesale prices of manufactures of the 15 leading industrial countries. For the method of calculation, see the article "New Indices of Real and Nominal Effective Exchange Rates" in Banca d'Italia, *Economic Bulletin*, no. 8, February 1989.

Table a11

Source: Based on Bank of Italy, Istat, OECD and IMF data.

Intra-EEC real effective exchange rates: the countries included in the EEC aggregate are Belgium, France, Germany, the United Kingdom, the Netherlands, Italy, Ireland, Denmark and Spain. For the method of calculation, see the article "New Indices of Real and Nominal Effective Exchange Rates" in Banca d'Italia, *Economic Bulletin*, no. 8, February 1989.

Table a12

Italian credit system: for the purposes of the table, 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.

Country grouping: that adopted by the BIS.

Table a13

Source: Istat, seasonally adjusted.

Other domestic uses: comprises government consumption and change in stocks.

Table a14

Source: Based on Istat and Isco data.

Industrial production: the indices are adjusted for variations in the number of working days. The seasonal adjustment of the general index of production is distinct from that of the indices of production by user sector, with the result that the aggregate index may differ from the weighted average of the disaggregated indices.

Stocks of finished goods: raw data.

Table a15

Source: Based on Istat data.

Unemployment rate: the higher figures include workers on wage supplementation. The annual figures, except for the adjusted unemployment rate, are the average of raw quarterly data and may not coincide with the seasonally adjusted annual averages.

Table a16

Source: Istat.

Table a17

Goods: imports, *cif*; exports, *fob*.

Bank capital flows: includes those of special credit institutions from 1989 on.

Change in official reserves: net of exchange rate adjustments and the revaluation of gold; a minus sign indicates an increase in net assets.

Table a18

Balance: 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: the Treasury (budget and other operations), the Deposits and Loans Fund, autonomous government agencies and the like, and the Southern Italy Development Agency.

Borrowing requirement: obtained as the sum of the budget deficit and the balance of other Treasury operations and those of the other entities included in the sector. The budget deficit excludes accounting items that are offset under other Treasury operations, loan proceeds and repayments, and the settlements of debts incurred by state sector bodies.

Other operations: includes the balance of other Treasury operations and those of the Deposits and Loans Fund, the expenditure of autonomous government agencies and the State Railways not financed out of revenues or with funds provided by the Treasury or the Savings and Loans Fund, the deficit of the Southern Italy Development Agency and the lending of the Savings and Loans Fund (excluding that to the Treasury and autonomous government agencies).

Rounding may cause discrepancies in the totals. The figures for the last year are provisional.

Table a20

BI-UIC financing: as stated in the Bank of Italy's accounts.

Foreign loans: includes only those raised by the Italian state and state sector entities that are denominated in foreign currency; it does not include loans contracted indirectly via credit institutions, which are included under "Other", or the Treasury bills and other government securities acquired by non-residents, which are included in the respective categories of domestic debt. It also includes Treasury credit certificates in ecus stamped as being for foreign circulation.

Monetary base financing: adjusted for Bank of Italy sales of securities to banks in connection with advances granted under the Ministerial Decree of 27.9.1974. Rounding may cause discrepancies in the totals. The figures for the last year are provisional.

Table a21

State sector debt: the changes in this item do not coincide with the flows shown in Table a20 since the debt is stated at face (or redemption) value and that denominated in foreign currency at year-end exchange rates.

Medium and long-term securities: includes bonds issued by Crediop on behalf of the Treasury, autonomous government agencies and the State Railways. The amount of these bonds is deducted from the lending of credit institutions to these entities.

Treasury credit certificates in ecus that are not stamped as being for circulation abroad and Treasury bills in ecus are included in the appropriate domestic debt items.

PO deposits: comprises current accounts, net of "service" accounts and payments by the Treasury to municipalities and provinces that are held with the PO.

Lending by credit institutions: based on Bank of Italy Central Credit Register data and prudential returns. Rounding may cause discrepancies in the totals. The figures for the last year are provisional.

Table a22.1

BI-UIC, government securities: includes the securities sold in connection with advances granted under the Ministerial Decree of 27.9.1974. The end-of-year figures are adjusted for revaluation deficits.

Rounding may cause discrepancies in totals.

Table a22.2

Open market sales: excludes the securities sold in connection with advances granted under the Ministerial Decree of 27.9.1974.

Rounding may cause discrepancies in totals.

Table a23

Portfolio variations: differ from those given by BI-UIC accounts since they do not include open market sales of securities in connection with advances granted under the Ministerial Decree of 27.9.1974.

Final figures are given at book values. Rounding may cause discrepancies in totals.

Table a24

Repurchase agreements based on competitive bid auctions.

Yields in percentages and amounts in billions of lire.

Table a25

Maximum amount: refers to the Treasury bills purchased at auction by the syndicate of banks that the Bank of Italy is prepared to finance.

The rate applied is that of the auction corresponding to the date of the transaction.

Table a26

Reverse repurchase agreements based on competitive bid auctions.

Yields in percentages and amounts in billions of lire.

Table a27

Yield: Average competitive bid yields, gross of withholding tax. From the end of September 1986 until September 1987 this tax was levied at the rate of 6.25 per cent, since then it has been levied at the rate of 12.5 per cent. Prices and yields are expressed in percentages, amounts in billions of lire.

Table a28

Actual rate on fixed-term advances: is the average rate weighted on the basis of new operations.

Treasury bill yields: is given before tax. From the end of September 1986 until September 1987 withholding tax was levied at the rate of 6.25 per cent, since then it has been levied at the rate of 12.5 per cent.

Treasury bill average yield: refers to the weighted average of auction rates.

Treasury and special credit institution bond yields: the former refer to securities with residual maturities of more than one year. Both sets of yields are given net of withholding tax and based on Milan Stock Exchange prices.

Bank rates: based, apart from the ABI prime rate, on ten-day returns and calculated as a centred monthly average. For the definition of bank interest rates, see the note to Table aD27 in the statistical appendix to the *Relazione annuale della Banca d'Italia.*

ABI prime rate: based on the figures collected by the Italian Banker's Association on unsecured overdraft facilities granted to prime customers. It does not include the maximum overdraft commission of 1/8 of percentage point per quarter.

Annual rates refer to the month of December.

Table a29

Loans from BI-UIC: based on the accounts of the Bank of Italy.

Bank reserves: also partly based on the accounts of the Bank of Italy. This item comprises lira liquidity (excluding deposits with the PO and the Deposits and Loans Fund), compulsory reserves, collateral for banker's drafts and the non-interest-bearing deposit against overshoots of the ceiling on loans.

Securities: stated at book value.

Bad debts: includes protested bills.

Capital and reserves: are those defined for supervisory purposes and include certain unencumbered provisions.

Interbank accounts: includes the liquid balances on correspondent accounts.

Interest-earning external assets and liabilities: refers to aggregates that do not coincide exactly with those included in the foreign exchange statistics. For the definition of these two items, see the Glossary published in the appendix to the *Relazione annuale della Banca d'Italia*.

Annual figures refer to the month of December.

Table a30

Loans of industrial credit institutions: Crediop acquired the public works special credit section of Istituto Bancario S. Paolo di Torino in December 1989.

Annual figures refer to the month of December.

Table a31

Source: Bank of Italy Central Credit Register.

Loans: of less than 80 million lire are excluded.

A new classification of bank customers was adopted in January 1989. See the note published in Banca d'Italia, *Supplemento al Bollettino Statistico*, no. 14, 30 July 1990.

Table a32

Public sector: excludes issues of Treasury bills and Treasury bills in ecus as well as the fixed rate Treasury credit certificates issued to settle the debts of Local Health Units and municipal transport companies.

Table a33

Yield at issue (Treasury credit certificates): the expected yield before and after tax in the months the first coupon matures, on the assumption that rates are unchanged over the period.

For the Treasury bonds issued after January 1990 and for the Treasury credit certificates issued after June 1990, the date, the price and yield at issue refer to the first tranche.

Table a34

Expected yields: 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 Treasury 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.

Total return indices: based as follows: – 31 December 1980 for Treasury credit certificates – 26 January 1983 for Treasury credit certificates in ecus – 14 April 1988 for Treasury discount certificates – 2 May 1984 for Treasury index-linked certificates – 30 December 1983 for Treasury bonds – 31 December 1984 for investment funds.

Table a35

For the definition of the various monetary aggregates, see "The Revision of the Monetary Aggregates", Banca d'Italia, *Economic Bulletin*, no.1, October 1985.

The percentage changes are calculated net of the effects of the December 1989 bank strikes.

Table a36

Foreign sector: current account balance on a settlements basis.

Bank financing: adjusted for securities issued to fund debts; foreign currency loans are adjusted for exchange rate variations.

State sector borrowing requirement: net of budget and Deposits and Loans Fund financial transactions and of the funding of the debts of health and social security institutions.

State sector financing: includes the loans and equity participations of the Treasury and the lending of the Deposits and Loans Fund. Net of the funding of the debts of municipalities and enterprises.

Financial assets: until 1983, includes government securities held by the foreign sector.

Other domestic liabilities: includes claims of BI-UIC, banker's acceptances held by the non-state sector, estimated atypical securities and credit institutions' bad debts.

Table a37

Total domestic credit: comprises bank lending in lire and foreign currency (adjusted for exchange rate variations and for 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, debt funding operations and foreign debt.

Loans to the non-state sector: includes debt funding operations and, since September 1984, banks' purchases of securities and repurchase agreements with customers. **3-month growth rates:** calculated on the basis of seasonally adjusted lending by banks and special credit institutions.

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 investment 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.*