BANCA D'ITALIA

Economic Bulletin

Number 13 October 1991

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CONTENTS

INSERTS

Economic Developments and Policies

Economic Developments and Policies

The international economy

The economic situation in the industrial countries

The economic slowdown that has been under way in the industrial countries since 1989 became more pronounced in the first half of 1991. Though waning in impact as the year progressed, the repercussions of the Gulf crisis on business and consumer confidence compounded the continuing restrictive effects of economic policy, which in the main countries was oriented primarily to curbing inflation and rehabilitating the public finances. After eight years of uninterrupted expansion, gross product declined in the first half of this year in the United States, the United Kingdom and Canada. Output grew in France and Italy, but at a rate that was half that recorded in the first six months of 1990. In the second quarter there were also signs of a slowdown in Japan and Germany, which had maintained a lively rate of growth over the past two years.

For most of the countries the current recession should be shallower and briefer than its predecessors (see the insert on *The industrial cycle in the Group of Seven countries*). Nonetheless, the timing and strength of a recovery that has been slow to appear remain uncertain, despite the emergence of signs of an upturn during the summer, primarily in North America, and despite monetary policies that helped bring about reductions in short-term interest rates in the first half of the year. Forecasts for world trade in 1991 have been repeatedly revised downwards. At the end of last year, growth on the order of 5 per cent was still considered possible. The IMF marked its forecast down to 2.5 per cent in May and reduced it further to 1 per cent in September; the latest OECD estimate, which dates from June, foresees 3 per cent annual growth of world trade.

Table 1

Gross product and domestic demand in the leading industrial countries

(constant prices; annualized percentage changes on preceding period)

	1990	1990 H2	1991 H1	1991 (1)
United States				
GNP	1.0	0.4	–1.9	–0.2
Domestic demand	0.5	–0.2	–3.1	–0.9
Canada				
GDP	0.5	–1.9	–2.4	–1.1
Domestic demand	–0.4	–2.2	–2.4	–0.5
Japan				
GNP	5.7	4.3	6.6	4.2
Domestic demand	5.9	4.4	3.7	3.8
EEC				
GDP	2.3	1.6	1.5	1.4
Domestic demand	2.6	1.3	1.6	1.4
of which:				
Germany (2)				
GNP	4.7	4.6	4.9	3.0
Domestic demand	5.2	4.1	4.8	3.3
France				
GDP	2.8	1.5	1.2	1.3
Domestic demand	3.2	2.3	0.8	1.3
Italy				
GDP	2.0	1.1	0.9	1.4
Domestic demand	1.9	–0.2	2.6	1.6
United Kingdom				
GDP	0.9	–3.0	–2.8	–1.7
Domestic demand	–0.1	–3.6	–4.8	–2.6

Sources: IMF, OECD, Istat and national bulletins.

(1) Forecasts by IMF, World Economic Outlook and, for Italy, Forecasting and Planning Report. – (2) Figures refer to West Germany only.

The industrial cycle in the Group of Seven countries

Industrial production in the leading industrial countries fell by 1.6 per cent in the first half of 1991. The contraction followed a sharp slowdown in growth in 1990, when the rate fell by a half to 1.6 per cent.

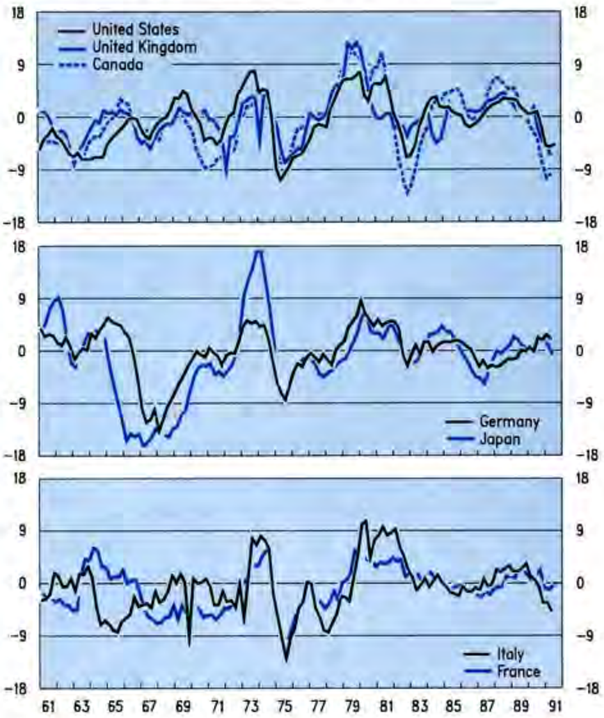
The cyclical phase differences between the various economies have become more pronounced. In Japan and Germany industrial output continued to expand at a rapid pace, while it contracted sharply in the United States, Canada and the United Kingdom. Italy and France were somewhere in the middle, with industrial output either stagnant or slightly declining.

Until a few months ago it was generally held that the present cyclical downturn was primarily due to the uncertainty engendered by the Gulf crisis and that it would consequently be both comparatively short and mild. Yet the recovery has been slow in arriving. More than six months after the end of the conflict, cyclical conditions in several of the major industrial countries are still depressed. To put the situation in perspective, the industrial cycles recorded by the G-7 countries in the past thirty years are illustrated below. The graphs show seasonally adjusted industrial production net of the underlying output trend. The trend itself has been estimated for each country on the assumption of exponential growth. To take account of structural changes in the parameters, regressions have been run for ten-year periods with the initial estimation period being progressively advanced.

The resulting peaks and troughs prove to be near those published by the OECD and national institutions. The latest turning points have to be treated with caution; in particular, there is no clear sign of a recent cyclical downturn for either Japan or Germany.

Industrial production in the G-7 countries

(percentage deviation from trend)



Source: Based on Istat and OECD data.

Considering all the complete cycles (from one trough to the next), the average duration of more than four years in the United Kingdom and Germany is perceptibly longer than in the other countries. In every country the recoveries have lasted longer than the recessions, which have lasted less than two years on average (Table 1).

The prospects for a revival in demand are dimmed by the expected reduction in the contribution of Japan and Germany to the growth of world trade in the second half and by real interest rates that remain high owing to the continuing imbalance in some countries' public finances and insufficient global saving.

In the United States GNP contracted by 1.9 per cent on an annual basis in the first half as a result of the sharp drop in fixed investment, which fell by 11 per cent, and a 1 per cent decline in private consumption (Table 1). The composite leading indicator, which has been rising since the beginning of the year, signals the impending end of the recession

Table 1

Industrial cycles in the G-7 countries, 1961-1991 (1)

	No. of cycles (2)	Average length (months)	Average length of upswings (months)	Average length of downswings (months)	Length of last recovery (months)	Date of last peak	No. of months since last peak (3)
United States	9	41	26	15	31	April 1989	26
Japan	9	38	23	15	40	October 1990	8
Germany	7	49	29	20	40	January 1991	5
France	8	43	24	19	30	July 1990	11
United Kingdom	7	49	25	24	33	September 1988	32
Italy	9	41	25	16	48	December 1989	18
Canada	9	40	24	16	20	May 1988	37

Source: Based on Istat and OECD data.
(1) Reference indicator: total industrial production, net of trend. – (2) Only full cycles are considered, measured from trough to trough. The last datum for 1991 is taken to be a minimum. – (3) The last reference month is June 1991.

The latest peaks can be seen to have come first in Canada and Britain, in 1988, and then in the United States, in early 1989, so that the cyclical contraction has now lasted for a good many months in these countries. In Italy the peak came at the end of 1989, and in France in the middle of 1990.

To permit easy comparison, the strength of each expansionary and recessionary phase has been measured as the absolute deviation from its average of the index of industrial production in each reference period, net of the trend component.

In every country except the United Kingdom and Canada, the present recessionary phase has been less severe on average than those of the seventies and eighties (Table 2). In France and Italy it is comparable to those recorded in the sixties.

Table 2

Strength of recoveries and recessions, 1961-1991 (1)

	1960s		1970s and 1980s		Last cycle	
	Cycles	Down-swings	Cycles	Down-swings	Cycle	Down-swing
US	2.73	1.07	4.11	3.00	2.03	2.57
Japan	6.00	3.21	4.21	2.57	1.41	1.45
Germany	4.64	5.06	2.88	2.06	1.75	0.94
France	3.79	1.73	3.04	2.18	1.36	1.51
UK	2.14	2.29	3.63	2.57	2.20	2.92
Italy	2.83	1.99	4.91	3.41	2.04	2.31
Canada	2.30	2.05	5.12	3.21	4.27	5.04

Source: Based on Istat and OECD data.
(1) The strength of each cycle and downswing is defined as the absolute deviation from its average of the index of industrial production in each reference period, net of the trend component.

(Figure 1). The US unemployment rate fell to 6.7 per cent in September from a peak of 7 per cent in June, and industrial production grew in August for the fifth consecutive month. However, the signs of recovery are found only in certain branches of industry and have not yet spread throughout the economy. High corporate debt and the banks' decreasing propensity to lend impede the growth of private investment and consumption, while the contribution of public consumption to the recovery is likely to remain modest because of past budget deficits and the expected curbs on defence spending.

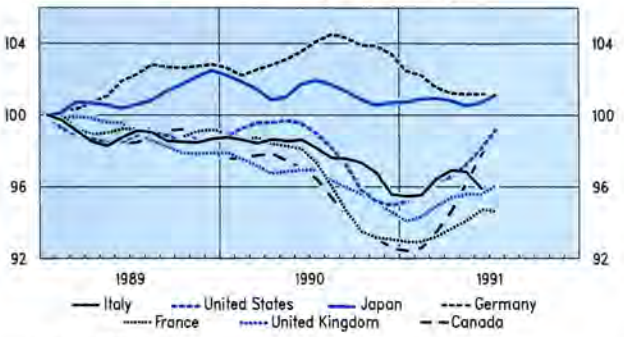
In the European Community GDP grew by around 1.5 per cent, as against 1.6 per cent in the second half of 1990, with widening phase differences from one country to another.

In the United Kingdom GDP fell for the second consecutive half-year, by 2.8 per cent, mainly as a result of the 14 per cent decline in fixed investment. The unemployment rate rose to 8.5 per cent in August, compared with 5.8 per cent a year earlier. The signs of recovery are modest as yet: industrial production rose in July for the second consecutive month but was still 2 per cent less than in July 1990.

Figure 1

Business cycle indicators

(seasonally adjusted monthly data; indices, January 1989=100)



Source: OECD.

(1) Composite leading indices calculated by the OECD; they are obtained by aggregating 11 basic indices relating to average weekly hours worked in manufacturing, the number of unemployed, orders for intermediate and consumer goods, sales, orders for capital goods, the number of building permits, the change in unfilled orders, the prices of raw materials and shares, money supply (M2) and consumer expectations.

In France and Italy the growth of GDP slowed down further to 1.2 and 0.9 per cent respectively, compared with 1.5 and 1.1 per cent in the second half of 1990. In both countries industrial production failed to pick up from the levels recorded at the end of 1990. The unemployment rate in France rose to 9.5 per cent in August, compared with 8.9 per cent in December 1990.

In western Germany the surge in investment, which expanded by 19 per cent on an annual basis, continued to fuel the growth of gross product (4.9 per cent in the first half). The unemployment rate in the first eight months of the year stayed at around 5.6 per cent, the lowest level since 1981. In eastern Germany, by contrast, gross product diminished further and by July had fallen by about 30 per cent since monetary unification; this outcome reflected the collapse of exports to the former Comecon countries, which plunged by 60 per cent. Rapidly rising labour costs were partially responsible for a pronounced deterioration in the competitiveness of industry: the ratio of average earnings to those in western Germany rose from around 30 per cent before unification to around 60 per cent a year afterward. The unemployment rate rose to around 12 per cent in the first half of 1991. Despite the large rise in wages and salaries and transfer payments, private consumption probably diminished, though less sharply than gross product, owing to the drop in employment and the rise in consumer prices (rents and regulated prices, in particular).

Such signs as a recovery in orders received by industry during the summer and a slight decline in unemployment in August may nonetheless point to a bottoming out of the slump in output in the East. In the western part of the country, however, where capacity utilization is very high, growth is likely to slow down owing, among other factors, to high real interest rates and the tax increases that were introduced in July. The twelve-month increase in industrial production fell from 6.2 per cent in January to 3.7 per cent in July. The leading indicator declined in July for the seventh consecutive month, falling back to the level at which it had stood at the beginning of 1989.

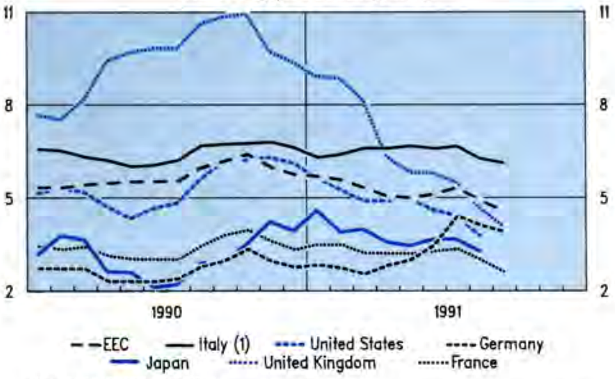
Japan's GNP grew at an annual rate of 6.6 per cent, with net exports accounting for nearly half of the increase, but in the second quarter signs of deceleration emerged: the twelve-month rise in industrial output declined from 7.5 per cent at the start of the year to 2.8 per cent in July.

Inflation in the industrial countries diminished, thanks in part to the return of oil prices to the level that had obtained before the Gulf crisis and the continuous fall in the prices of non-fuel primary commodities, which were 6.7 per cent lower in September than they had been a year before (Figure 2). Consumer price inflation fell to 3.8 per cent in the United States and 3.3 per cent in Japan in August, compared with 6.1 and 3.9 per cent respectively at the end of 1990, primarily as a result of the deceleration of import prices (which in the year to June were 2.7 per cent higher in the United States and 6 per cent lower in Japan).

Figure 2

Consumer prices

(percentage changes on corresponding month of previous year)



Sources: OECD and Istat.
(1) From July 1991 estimated data for Italy are based on the month-to-month changes in an indicator constructed on the basic components of the cost of living.

The average twelve-month rate of inflation in the European Community declined from 6 per cent at the end of 1990 to 4.6 per cent in September, and the dispersion of rates among the member countries narrowed, above all because of the reduction of more than 5 percentage points in the United Kingdom since the start of the year to 4.1 per cent. The reduction was due largely to the elimination of the poll tax and the cut in mortgage rates, which are included in calculating the British consumer price index. In Spain inflation fell to 5.7 per cent in September, compared with 6.6 per cent in December 1990. In Germany, after accelerating to a peak twelve-month rate of 4.4 per cent in July because of the increase in indirect taxes and the rapid growth of wages, consumer price inflation slowed down to 3.9 per cent in September. Germany's inflation rate is currently more than a point higher than that of France. Inflation is higher than the Community average in Spain and Italy (6.2 per cent), Portugal (10.2 per cent) and Greece (17.9 per cent).

Economic policies

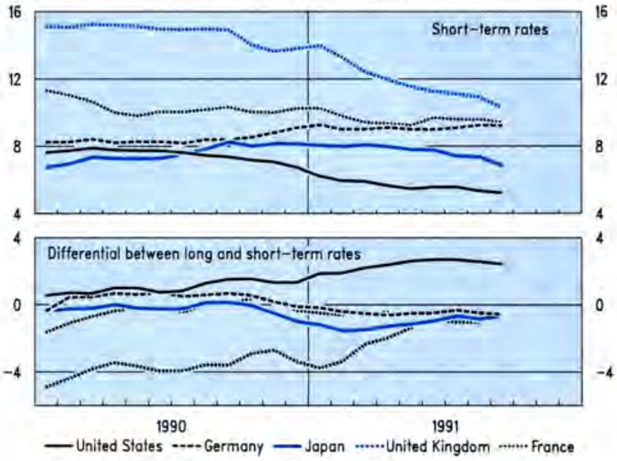
In the first nine months of the year fiscal policy was almost universally oriented towards rehabilitating the public finances. The task of stabilizing the business cycle was therefore performed mainly by monetary policy, with interest rates being lowered in the countries where economic activity had slowed down (Figure 3).

In the United States the Federal Reserve encouraged the fall in market rates by reducing the discount rate in February, April and again in mid-September to 5 per cent and steering the federal funds rate down to 5.25 per cent during the summer (compared with 7 per cent in December 1990). Long-term rates, after remaining broadly unchanged in the first seven months, fell by about half a point in August. Partly because of the slack pace of economic activity, the twelve-month growth of M2 was only 2.5 per cent in August, at the lower limit of the target range of 2.5-6.5 per cent.

Figure 3

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

(monthly averages)



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

Short-term interest rates in Japan fell by more than one point between April and September to reach 6.8 per cent. The downward movement was favoured by the half-point reduction in the discount rate in July (to 5.5 per cent) and reflected the abatement of inflation, the deceleration of industrial activity in the second quarter and the concern over the slump in share prices. Long-term rates remain almost a point lower than short-term ones.

Average short-term interest rates in the countries participating in the exchange rate mechanism of the EMS came down by more than a point from the end of last year to 10.2 per cent in September. Intra-ERM differentials narrowed considerably. This was mainly attributable to the large cut in British and Spanish rates, stemming from expectations of exchange rate stability, and the increase in German rates during the summer.

Germany's restrictive monetary policy was tightened further in mid-August, when the discount rate was raised by one point and the Lombard rate by a quarter of a point. Long-term rates, which had fallen slightly in the early months of the year, rose in July. The slope of the yield curve remained negative. M3 grew by 3.4 per cent on an annual basis in the first half of the year, close to the lower limit of the new target range; in July and August the aggregate accelerated, growing at an annual rate of 4.1 per cent.

In France the slowdown of the economy and a rate of inflation that remained moderate helped to bring down short-term rates by around one point between January and May. After rising briefly in June to counter pressure on the franc, yields began falling again during the summer, so that the positive differential vis-à-vis German rates narrowed to less than half a point in September. In the United Kingdom short-term rates fell by three points in the first nine months of the year in the wake of an equivalent reduction in the base rate. In September the differential vis-à-vis German rates was around one and a half points at the short end of the maturity spectrum (one point at the long end). In Spain as well, the strength of the peseta made it possible to reduce short-term rates to 12.5 per cent over the summer.

Fiscal policies have generally been restrictive this year, but for most of the countries the final budget deficit should nonetheless exceed that forecast, in part owing to the weakness of economic activity.

In the United States, according to recent estimates, the budget deficit has expanded from $220 billion in 1990 to $280 billion this year, equivalent to 5 per cent of GNP, despite the foreign contributions of $42 billion towards the expenses incurred for the Gulf War. The savings and loans cleanup has cost $83 billion this year. In cyclically adjusted terms, according to IMF estimates, the federal budget's impact on GNP growth will be negative by around 1 per cent. The deficit is now expected to worsen further to $350 billion (6 per cent of GNP), compared with the original target of $280 billion, owing in particular to the refinancing of the Federal Deposit Insurance Corporation.

In Japan the favourable economic situation and spending restraints, in line with the policy that has been pursued since 1985, contributed to the further growth of the public sector surplus, which should exceed 3 per cent of GNP this year.

In the European Community the ratio of the overall public sector deficit to gross product should rise from 3.9 per cent in 1990 to 4.1 per cent this year. Most of the deterioration is attributable to Germany, where the overall budget deficit should amount to around DM 160 billion and 5.6 per cent of GNP, compared with 3.7 per cent in 1990. To prevent an even larger increase in the deficit, in January and February the German government adopted a series of tax measures designed to yield around DM 32 billion, together with spending cuts, particularly in defence. However, the federal deficit does not include projected losses of some DM 20 billion for the Treuhandanstalt, the agency responsible for restructuring and privatizing state companies in the eastern Länder.

In France the budget deficit should amount to around 1.4 per cent of GDP this year. The supplementary fiscal measures that were approved during the year are expected to offset only part of the effects of the slowdown in the economy. In the United Kingdom the authorities permitted the public sector budget to bear the brunt of the recession, so that last year's outcome, which was broadly in balance, is expected to be followed this year by a deficit equivalent to about 2 per cent of GDP. The impulse imparted by the cyclically adjusted balance should be negative by 0.5 per cent, according to IMF estimates.

Exchange rates and the balance of payments

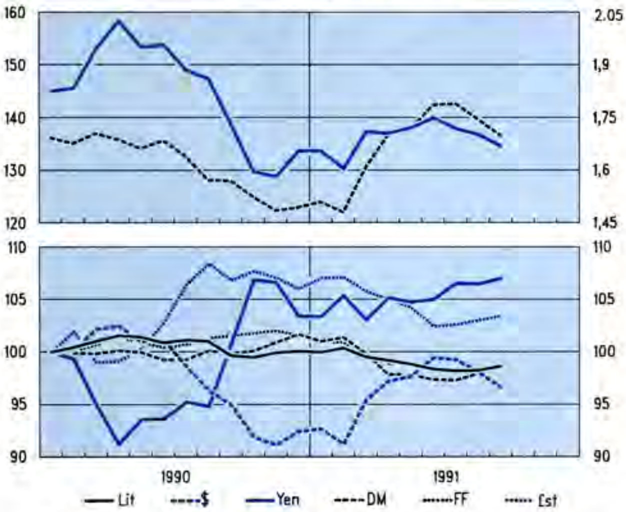
In the first half of the year the dollar appreciated by 6 per cent in nominal effective terms, recovering much of the ground it had lost in 1990 (Figure 4). The concerted interventions of the central banks in mid-February helped to modify markets' perceptions of the appropriateness of the dollar's exchange rate of

DM 1.45 and 128 yen, which was 14.5 per cent below the average of 1980 in real effective terms. The expectations of economic recovery in the United States after the Gulf War and the improvement in the balance of payments on current account encouraged the demand for dollars despite the further widening of the negative differential between US short-term interest rates and those in Germany and Japan to roughly 4 and 2 percentage points respectively in September. The political crisis in the Soviet Union in August prompted a temporary appreciation of the dollar.

Figure 4

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

(indices, January 1990=100)



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

In the first seven months of the year the Deutschemark depreciated against the dollar and the yen, being weakened by the expectations of a growing budget deficit and rising inflation as a result of unification, together with the uncertainty clouding political developments in Eastern Europe. The currency only strengthened after the August increase in the discount rate and the subsequent cut in the discount rate in the United States, which enabled the exchange rate to improve to under DM 1.70 to the dollar, the level that had prevailed at the beginning of 1990.

Within the exchange rate mechanism of the EMS there was appreciation of the currencies with positive nominal interest rate differentials because of inflation. Sterling, the lira and the peseta rose by respectively 1.9, 0.5 and 1.8 per cent against all the other ERM currencies in the first nine months. Sterling, which had fallen below the lower margin of the narrow band after its entry into the ERM in October 1990, rose in the early months of this year to fluctuate around the centre of the band (Figure 5). The lira, which had been at the centre of the band at the end of 1990, rose in March to the top of the band against the French franc, when the peseta also reached the top of its band against the franc. The exchange rate between these two currencies was kept within the allowed margins thanks to interventions by the two central banks and also to a reduction in interest rate differentials. The Deutschemark remained in the upper part of the fluctuation band.

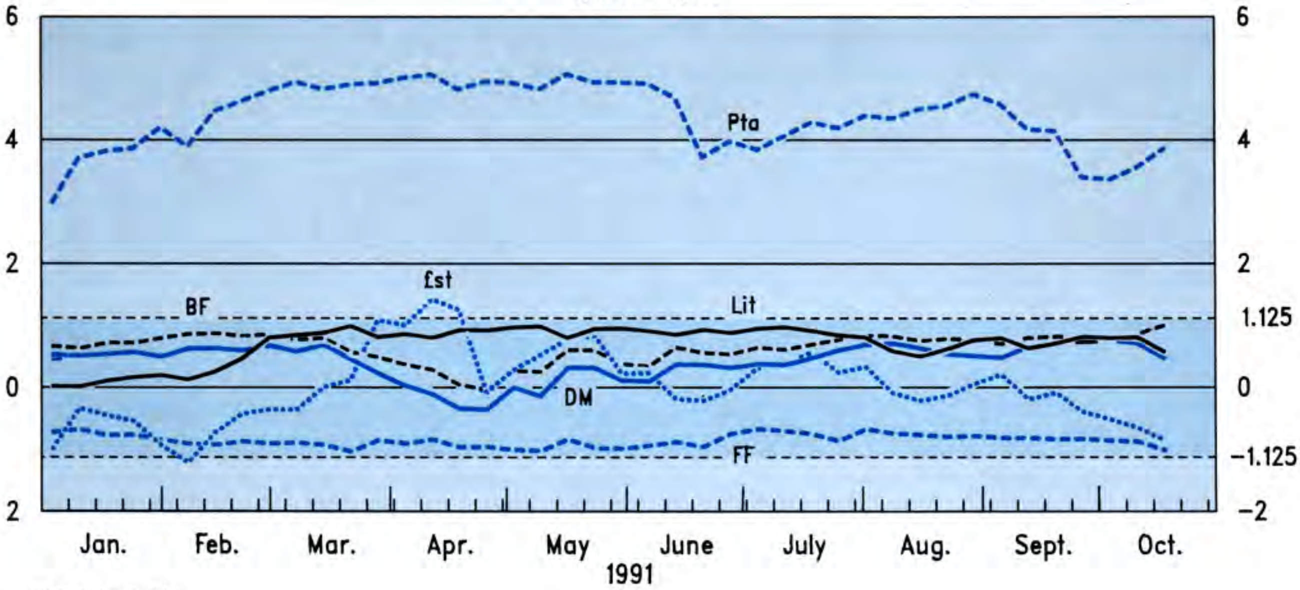
The evolution of nominal exchange rates and relative prices within the EMS resulted in the real appreciation of the currencies of those countries engaged in lowering their domestic inflation rates to converge towards the lowest levels in the System. From January 1990 to July 1991 the effective exchange rate of sterling vis-à-vis the other EMS currencies rose by 11.9 per cent in real terms, based on the wholesale prices of manufactures, and by 5 per cent in nominal terms. The lira and the peseta appreciated by respectively 1 and 0.7 per cent on a real effective basis (as against a depreciation of 0.8 per cent and an appreciation of 2.6 per cent in nominal terms). By contrast, the French franc, the Deutschemark and the Dutch guilder depreciated in both real and nominal terms.

The disequilibria in the balance of payments on current account of the leading industrial countries diminished, as a result of differences in cyclical trends and the delayed effect of changes in competitiveness in 1990.

In the first half of this year the United States recorded a current account surplus estimated at $13 billion when seasonally adjusted (compared with a deficit of $47 billion in the second half of 1990). More than half of this improvement of 60 billion was accounted for by $34 billion in contributions from

Figure 5

Position of ERM currencies in the fluctuation band (1)
(percentages)



(1) End-of-period data.

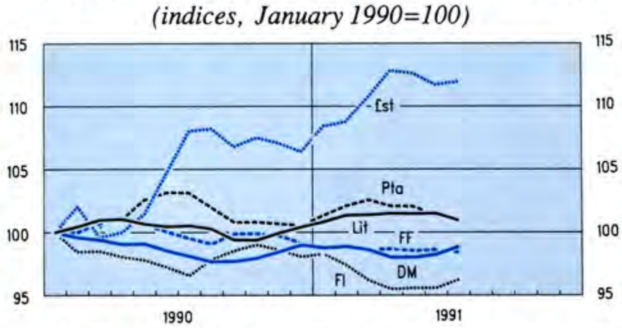
allies to finance the Gulf conflict, which were treated as unilateral transfers. The trade deficit narrowed to $34 billion from $56 billion in the second half of 1990, reflecting a 5 per cent decline in the volume of imports over the first half of 1990 and a rise in exports of 8 per cent. The terms of trade improved by about 3 percentage points.

Germany's balance of payments on current account recorded a deficit of $12 billion, compared with a surplus of $18 billion in the second half of 1990, while its trade surplus narrowed from $26 billion to $3 billion. Figures for trade volumes, which are available only for the former West German regions, indicate an acceleration of imports by 20 per cent and a fall in exports of 1 per cent. The capital account continued to register a net outflow of long-term investment totaling $24 billion in the first half but a net inflow of short-term capital of about $25 billion.

The principal beneficiaries of Germany's increased imports were the EEC countries. In the first six months of the year the German trade surplus vis-à-vis the other EEC nations fell to about DM 9 billion, against DM 38 billion in the second half of last year. The overall balance on current account for the Community should record a deficit of about $33 billion in the first half of 1991, compared with $3 billion in the second half of 1990. Spain's deficit grew slightly from $6.5 billion to about $8.5 billion in the second half of last year, while those of France, Italy and the United Kingdom remained substantially unchanged at $4.4, $7.3 and $6.5 billion respectively.

Figure 6

Real effective exchange rates of ERM currencies (1)
(indices, January 1990=100)



(1) Monthly averages. Real effective exchange rates are based on producer prices of manufactures in the currencies of: Belgium, France, Germany, Netherlands, United Kingdom, Italy, Denmark, Ireland and Spain.

Japan's current account surplus turned upwards after four years of decline and reached 36 billion in the first six months of this year, compared with 13 billion in the second half of 1990. The trade surplus increased from $33 to $46 billion, fueled mainly by an improvement of 4.8 per cent in the terms of trade and by a 2 per cent contraction in the volume of imports. The long-term balance on capital account was in surplus, mostly as a result of foreign disinvestment by Japanese financial firms over the period, while short-term capital movements recorded a deficit of almost $40 billion, after being in surplus throughout the eighties. The overall net outflow of capital enabled Japan to overtake Germany as the world's leading net creditor.

The international financial markets

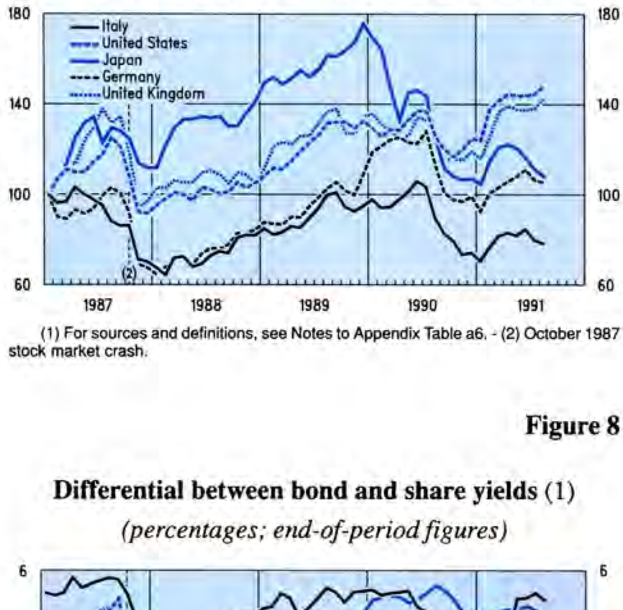
In the first half of this year share prices in all the leading countries except Japan staged a sharp recovery from the minimum levels registered in the second half of 1990, with only a slight dip in August caused by uncertainties regarding the coup d'état in the Soviet Union. Among the causes of this strong performance were the end of hostilities in the Gulf, the fall in interest rates and expectations of an upturn in the US economy. The rise in share prices, which was particularly large in the United States and the United Kingdom, amounting to 19 and 25 per cent respectively between January and September, has not yet been accompanied by growth in profits, thus widening the positive differential between yields on bonds and on shares. On the Japanese market, the investors' confidence was weakened by revelations of irregular transactions by a number of major financial firms; between May and September the Topix index fell by 9 per cent, wiping out the gains of the first four months of the year. In the summer the raising of German interest rates led to a fall of about 5 per cent in share prices on the Frankfurt exchange.

Lending in the international capital markets recovered, following last year's decline, to expand by about 10 per cent on an annual basis (Table 2). Growth was particularly strong in the fixed-rate securities segment, with gross placements amounting to $148 billion in the first eight months, as a result of the fall in interest rates in the leading countries. The recovery of prices on the major stock exchanges facilitated the placing of bonds with equity warrants, issues of which totaled $33.8 billion from January to August. By contrast, there was a fall in issues of floating rate bonds, which had accounted for a substantial share of the total in 1990, when uncertainty regarding interest rates was more pronounced. Negotiable securities have now overtaken bank loans as sources of finance; they represented about 75 per cent of gross lending, compared with an average of 66 per cent between 1985 and 1990. This trend reflects the growing integration of financial markets, where negotiable instruments make it easier for investors to adjust their portfolios.

Figure 7

Share prices (1)

(monthly averages; indices, January 1987=100)

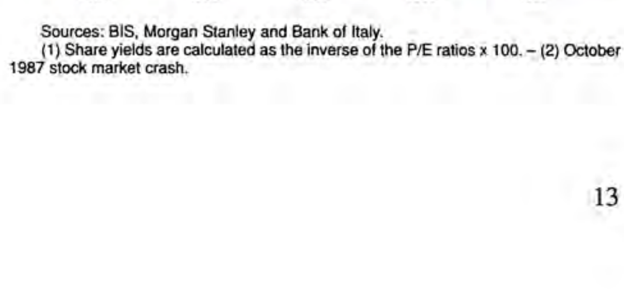


(1) For sources and definitions, see Notes to Appendix Table a6. - (2) October 1987 stock market crash.

Figure 8

Differential between bond and share yields (1)

(percentages; end-of-period figures)



Sources: BIS, Morgan Stanley and Bank of Italy.

(1) Share yields are calculated as the inverse of the P/E ratios x 100. – (2) October 1987 stock market crash.

With regard to the currency composition of lending, the ecu reached an unprecedented share of 11.1 per cent of the total, against 8.4 per cent in 1990, thus moving into second place after the dollar. Notwithstanding the fears aroused by proposals to review the definition of the ecu put forward at the Intergovernmental Conference for Economic and Monetary Union, market operators continued to invest in ecu-denominated assets, thereby facilitating subsantial fund-raising by both sovereign states and international institutions. Yields were often lower than the weighted average of yields on the ecu's component currencies.

Table 2

Gross lending in international capital markets

(billions of dollars)

	1989	1990	1991 (1)
Bonds (2)	255,7	229,9	195,0
of which: floating rate	*17.8*	*37.1*	*11.5*
Syndicated loans (3)	121,1	121,5	62.9
Back-up facilities (4)	8.4	7.0	3.7
Total (5)	**385.2**	**358.4**	**261.6**
percentage breakdown by currency (6)			
US dollar	53.7	41.8	42.2
Ecu	5.4	8.4	11.1
Pound sterling	9.3	12.4	8.6
Japanese yen	7.6	9.4	8.5
Deutschemark	6.2	7.8	5.7
Swiss franc	6.0	6.9	6.1
Other	11.8	13.3	17.8

Source: OECD.

(1) January-August. – (2) Gross Euromarket issues plus foreign issues in domestic markets. – (3) Announced medium and long-term Eurocredits and foreign loans. – (4) Lines of credit granted in connection with the issue of securities. – (5) Rounding may cause discrepancies in totals. – (6) Based on breakdown of bonds and syndicated loans.

Central and Eastern Europe and the developing countries

During the first six months of this year there was a further worsening of the economic situation in Eastern and Central European countries. For the second year running, the fall in output was due largely to the Soviet Union's reduction of imports — by 45 per cent — and of fuel shipments. The situation is most serious in Bulgaria, where output is expected to plummet by 26 per cent this year, after last year's fall of 12 per cent. In Poland and Czechoslovakia a contraction of about 10 per cent is forecast, while for Hungary and Romania the figure should be 5 per cent. In all these countries the slowdown has been sharpest in the manufacturing sector. With the exception of Czechoslovakia and Hungary, consumption is generally expected to fall less than output, on account of higher imports and the running down of stocks.

There was a surge in prices at the start of the year in Czechoslovakia and Bulgaria, mainly as a result of liberalization measures. Both countries recorded a notable slowdown in inflation in the second quarter, and the average rate of inflation for 1991 is expected to be 60 and 500 per cent respectively. In Romania the rate of increase of consumer prices should accelerate to 160 per cent, from 7 per cent in 1990. In Yugoslavia inflation started to rise again in 1991 and at mid-year stood at around 90 per cent.

In Poland the stabilization policies introduced over the last eighteen months have achieved a considerable reduction in inflation, which is expected to fall from 600 per cent in 1990 to around 70 per cent this year. In Hungary the increase in prices is forecast to remain around 30 per cent. In both these countries the measures to curb inflation and reduce external deficits may be jeopardized by the widening of budget deficits, of which a principal cause is the losses of public sector enterprises. This highlights the need to accompany macroeconomic stabilization policies with full implementation of plans for privatization and by the reform of state budgets.

Substantial progress has been made in Hungary and in Poland towards liberalizing foreign trade, including the elimination of government authorizations for exporters and importers and a reduction of export subsidies, as well as towards the introduction of partial currency convertibility. These measures fueled an unprecedented surge in exports earnings in hard currencies, enabling both countries to record current account surpluses last year. This year, however, the less restrictive stance of monetary and fiscal policies has led to a doubling of imports in Poland, where the trade balance is expected to be in deficit again for the year as a whole. Imports were contained in Hungary through the application of quotas on consumer goods. The problem facing the countries of Eastern Europe is to establish a level of customs tariffs that can curb imports but that is also not incompatible with membership of GATT and trade integration with the West.

In 1991 the total external financial requirements of these countries, excluding Yugoslavia and the Soviet Union, is expected to stand at about $20 billion; of this total, $10 billion is ascribable to the deficit on current account, $8 billion to debt servicing and $2 billion to the need to augment the reserves to defend exchange rates. According to IMF estimates, $5.3 billion should be forthcoming through private channels, while the remainder (about 70 per cent of the total) would be supplied by official sources. Of this, $4 billion should come from the IMF, $1.6 billion from the World Bank, and $3 billion from the EEC and the other G-24 nations. Further, the debt reduction obtained by Poland and the rescheduling forecast for Bulgaria should lead to a decrease of 6 billion in the burden for 1991.

In the first half of 1991 economic activity in a number of developing countries suffered the adverse effects of the Gulf War, which in many instances compounded existing disequilibria.

In the Middle East, where 1991 is expected to record a fall in output of around 4 per cent, Turkey, Egypt, Jordan and Yemen have been especially hard hit. Income in these countries is expected to stagnate or decline, as well as, naturally, in Iraq and Kuwait. The repercussions of the conflict were also severe in India, Pakistan, the Philippines and Sri Lanka, partly as a result of the contraction in remittances by emigrant nationals and the forced repatriation of many of them.

In sub-Saharan Africa economic development is still insufficient to raise per capita income, which will fall by 1 per cent this year. Episodes of famine in this area have multiplied recently; they have struck a number of countries (Somalia, Ethiopia, Angola, Liberia and Mozambique) and, according to UN estimates, affect about 30 million people.

Better than average growth has been achieved by many of the countries that were able to continue the adjustment programmes and reforms agreed with the IMF. Far-reaching programmes have recently been launched in Argentina, Egypt and India. The Argentine packet comprises the full convertibility of the austral, the freezing of pensions and public-sector wages and higher taxes on fuel. These measures have increased official reserves, drastically cut inflation from 27 per cent per month in April to 3 per cent in June and resulted in a primary surplus for the general government budget in the second quarter.

At the London Summit last July the G-7 countries invited the Paris Club to examine the possibility of increasing the concessions granted to low income countries beyond the parameters fixed at the Toronto Summit. The Club is currently considering the proposals put forward by the Netherlands and the United Kingdom concerning the possibility of cancelling a part of these countries' debt.

Three important heavily indebted middle income countries have further improved their access to the international financial markets: Mexico, Venezuela and Chile. These gains have been made possible partly by a reduction of the debt burden through market operations — as in the case of Chile — or through agreements with commercial banks, financed by the IMF and the World Bank — in Mexico and Venezuela — as well as by the progress made towards stabilization and in structural reforms.

Official creditors' support for the indebted middle income countries continues through the debt restructuring initiatives of the Paris Club. The Club has recently finalized major agreements with Egypt and Poland, covering about $60 billion of debt and reducing the current value of the two countries' contractual obligations by about 50 per cent.

The Italian economy and the balance of payments

The slowdown in economic activity that began in the last part of 1989 and has since affected all the main components of aggregate demand has turned into stagnation. Economic growth in the first half of this year was even slower than in the second half of 1990. GDP grew at an annual rate of 0.9 per cent, compared with an average of 2 per cent in 1990.

The main factor depressing economic activity was the sudden slowdown in world demand, which resulted in exports of goods and services declining by 0.7 per cent compared with the preceding six months. The sluggishness of domestic demand, caused mainly by the investment standstill, also played a role in curbing economic growth.

The seasonally adjusted deficit on the external current account widened from 7.2 trillion lire in the second half of 1990 to 9 trillion in the first half of this year, with foreign trade making a negative net contribution to GDP growth of nearly one percentage point at constant prices.

Total employment bucked the stagnant trend of output and rose significantly, although at a decelerating pace. In the more cyclically sensitive manufacturing sector employment nonetheless contracted and recourse to the Wage Supplementation Fund increased.

Consumer price inflation followed a downward trend until the middle of 1990; it then accelerated until the beginning of last summer before slowing down again. The twelve-month rate now appears likely to fall below 6 per cent, its level in the spring of 1990. In September the inflation differential with respect to the other EMS narrow-band currencies was 2.8 percentage points.

Domestic demand and industrial output

According to provisional figures released by Istat, the average rate of gross fixed capital formation through June was unchanged compared with the second half of 1990. Investment in machinery, equipment and transport equipment declined by nearly one per cent in the second quarter, while construction investment staged a weak recovery.

The stagnation in investment was mainly due to the uncertain outlook for domestic and international demand. The rapid conclusion of the Gulf war did not bring the hoped-for improvement in expectations. Both the Bank of Italy's annual survey in January and Isco's six-monthly poll in April found a substantial scaling-back of firms' investment plans, especially among medium-sized businesses. However, the deferral of plans to expand capacity has not prevented the start of programmes of technological modernization and process rationalization. The Isco survey revealed that a growing share of total investment spending was being devoted to these aims. Another factor depressing investment was the decline in corporate self-financing, which was particularly steep among medium-sized firms, thus corroborating the findings of the Isco survey. The downward trend has presumably continued.

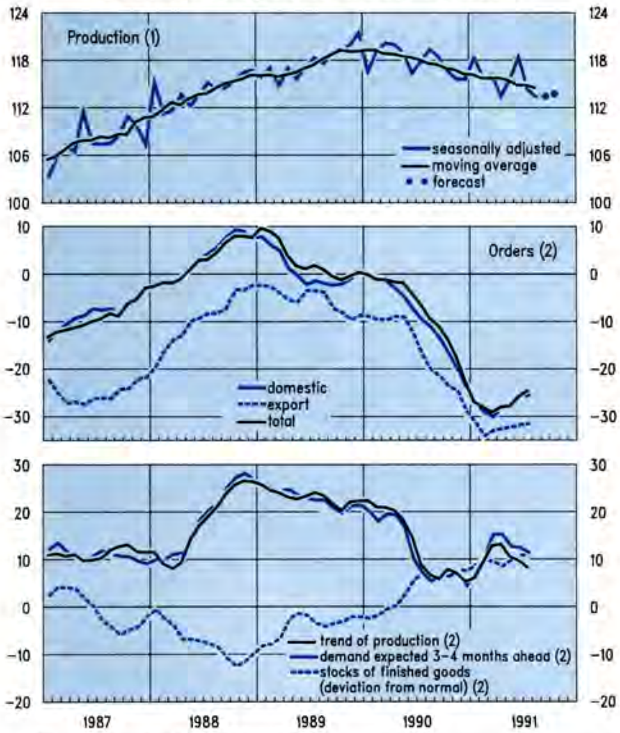
Households' final demand continued to expand, especially for non-durable consumer goods and services. Spending on consumer durables reflected the decline in new car sales, although seasonally adjusted deliveries stopped falling in April. Isco's monthly surveys nonetheless indicate that plans to buy consumer durables are still weak.

Consumer spending was boosted by the rise in disposable income; after stagnating in the second half of 1990, this aggregate started to grow in real terms at an annual rate of around 2 per cent, buoyed by contractual increases in earnings. Isco's monthly surveys nonetheless indicate that households' confidence and short-run expectations for the economy are still worse than before the Gulf war. Moreover, consumers' caution may have been accentuated by the tax measures adopted or simply announced during the year.

Market services were the fastest-growing component of household consumption, which helped to sustain output in the services sector.

Figure 9

Industrial output, demand and stocks



Sources: Based on Istat and Isco-ME data.

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

The weakness of aggregate demand for goods was paralleled by a decline in industrial output of slightly more than 2 per cent compared with the first half of 1990 (Figure 9). Provisional figures for August and estimates for September and the first half of October based on electricity consumption indicate that production fell by 2.6 per cent in the first ten months after adjusting for the number of working days. The seasonally adjusted figures for production show increasingly wide monthly fluctuations.

The breakdown of industrial output by economic use is consistent with the performance of the basic components of domestic demand (Table 3). Output of intermediate and capital goods fell from mid-1990 onwards; the fall was particularly steep for agricultural and industrial machinery and office equipment, despite signs of recovery in the second quarter. Output of all types of consumer goods fluctuated significantly. Overall, it was stationary over the first half, with a slight expansion in the output of non-durables.

Table 3

Industrial output by economic purpose
(percentage changes on previous period, on an annual basis; seasonally adjusted)

	1989	1990			1991
	Year	Year	H1	H2	H1
Final investment goods	**2.9**	**1.9**	**1.9**	**–5.5**	**–4.6**
For industry	4.2	2.3	4.6	–6.3	–11.0
Transport equipment	–1.7	4.1	0.8	–1.1	11.2
Multi-sector	4.1	–2.9	–7.2	–8.7	1.6
Consumer goods	**2.7**	**0.9**	**–1.4**	**2.8**	**–0.4**
Durables	3.6	–1.5	–2.7	–1.7	0.9
Semidurables	2.5	–0.3	–5.0	2.6	–2.5
Non-durables	2.5	4.1	3.7	6.2	1.1
Intermediate goods ..	**3.4**	**–0.8**	**–2.7**	**–2.8**	**–1.0**
For capital goods (1)	6.8	0.9	2.7	–7.4	–4.6
For consumer goods production	4.5	–1.9	–8.2	1.9	0.3
Mixed (2)	2.8	–2.2	–4.8	–3.7	–1.2
Fuel and power products	2.8	3.6	5.2	–0.3	0.8

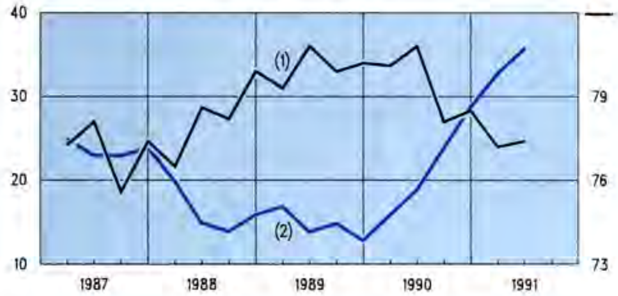
Source: Based on Istat data.

(1) Goods used in the production of investment goods or other intermediate goods. – (2) Excluding fuels and power.

The capacity utilization rate in manufacturing dropped further, but remained at a historically high level. According to the Isco-*Mondo Economico* quarterly survey of business opinion, productive capacity is now only a constraint on output in exceptional cases (Figure 10).

Figure 10

Capacity utilization in industry excluding construction
(percentages)



Sources: Isco; Bank of Italy figures based on Istat data.
(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 twelve months.

The monthly business opinion surveys present a diversified picture of conditions in industry. Through August they indicated conflicting trends for orders and expected demand: current orders stopped declining and began to improve slightly in the spring, spearheaded by the domestic component; by contrast, the expected level of orders three to four months ahead continued to deteriorate, indicating a much less optimistic climate than at the start of the year. Despite the uncertainty about the staying power of the improvement in demand, stocks of finished goods were increasingly expected to be above normal.

Furthermore, the modest recovery in current orders for manufacturing industry as a whole conceals a decline in demand for investment goods. Firms in this sector were the most pessimistic about short-term demand. The difficulties encountered by medium-sized firms are confirmed by Isco's August survey, which gives no indication of an improvement in the especially weak domestic and export demand conditions that were a feature of the first half.

Employment and the labour market

Labour force surveys show that total employment grew between the first half of 1990 and the first half of this year, albeit at a declining rate.

In January a change was made in the method of estimating the employment figures with the aim of improving their accuracy. The sample results are now related to the entire population separately for each age group as well as for men and women. The figures for the younger age groups had previously been underestimated and their adjustment has increased both the overall participation rates and the numbers of first job seekers, unemployed persons, persons employed in industry and wage and salary earners. The figures on employment in agriculture have been revised downwards. The disparity in unemployment rates between the Centre-North and the South has become wider.

Based on the average of the January, April and July surveys, employment rose between the first half of 1990 and the first half of 1991 by 228,000, or 1.1 per cent. The largest increase was again recorded by the services sector (including non-market services), with a gain of 275,000 jobs, or 2.4 per cent. This more than offset declines of 56,000 and 58,000 in agriculture and industry excluding construction (respectively 3 and 1.2 per cent). As in the past, the contraction in employment followed that in economic activity, but was not as steep. Employment in the construction industry increased by 66,000, or 3.5 per cent.

The downward trend of industrial employment is confirmed by Istat's survey of firms with more than 500 employees, in which employment declined by 2.4 per cent compared with the first half of 1990 and recourse to the Wage Supplementation Fund increased by over 50 per cent, more than twice the figure for industry as a whole.

The number of hours of ordinary wage supplementation in industry excluding construction rose from the low levels of the first three quarters of 1990 to 16 million in July 1991, twice the figure for September 1990. On average, special benefits in the first half of this year were at the same level as in 1990, but showed a rising trend. On a seasonally adjusted basis, the number of full-time equivalent workers in industry receiving benefit rose to 220,000 in this period, an increase of 20,000 compared with the second half of 1990 that was accounted for entirely by industry excluding construction.

The official unemployment rate declined to 10.6 per cent in July. By geographical area, it was 6.2 per cent in the Centre-North, down from 6.4 per cent in July 1990, and 19.3 per cent in the South, compared with 21 per cent. The improvement was due partly to a slight decrease in participation rates but mainly to a rise in agricultural employment, which could easily prove contingent reversible.

By the end of September wage agreements had been signed covering some 4 million workers in the private sector. All the major outstanding contracts in industry were renewed, concluding with that of the food processing industry. In the services sector, the important road haulage contract was signed in March. Most of the new contracts run for three years and imply average gross monthly rises of between 200,000 and 300,000 lire when fully operative. Partly owing to lump-sum payments, most of the increase will come this year, so that the average rise in per capita labour costs in the private sector this year is not likely to fall below the 8.7 per cent recorded in 1990.

Last year's wage agreements contributed to public sector earnings continuing to outpace those in the private sector in the early part of 1991. In April the twelve-month increase in minimum hourly wages in the public sector (including the cost-of-living allowance) amounted to 12.9 per cent, compared with rises of 8.6 per cent in industry, 10.5 per cent in the distributive sector and 11.2 per cent in transport and communications. However, a number of important private sector agreements were still being negotiated. Taking these into account, actual earnings in industry excluding construction probably rose by about 9 per cent in the first half of the year. After recording large gains in 1990, earnings in the construction industry jumped by 14.3 per cent when the new sectoral agreement was signed in May. The conclusion of this contract was facilitated by the Government envisaging social contribution relief for the industry. Wage gains in the private services sector are also likely to have accelerated appreciably with the signing of the contracts covering shipping, insurance and road haulage.

Costs and prices

The acceleration of consumer price inflation that began in the summer of 1990 continued in the first half of this year; the twelve-month rise in the cost-of-living index increased from 5.6 per cent in June 1990 to 6.9 per cent last June.

In the third quarter the disinflationary effects of the fall in energy prices to the levels prevailing before the Gulf crisis made themselves felt and the twelve-month inflation rate dropped to 6.2 per cent in September. Inflationary pressure was further damped by the decline in the import prices of other raw materials and the stability of the lira (see the insert on *The effects on consumer prices of fluctuations in oil prices and the dollar*).

Intermediate input prices in manufacturing continued to accelerate; the twelve-month rate of increase rose to 6.7 per cent in the first half of 1991, spurred by the domestic components, including non-energy products (Table 4). The prices of inputs imported directly by manufacturing enterprises (mainly industrial raw materials and semi-finished products) were virtually stable.

Manufacturing productivity was just under one per cent higher during the first half than in the same period of 1990. Taking into account the rise in costs per employee, this meant a rise in unit labour costs of 8.4 per cent. Total variable unit costs rose in turn by 7.6 per cent, nearly 5 points more than output prices (Figure 11). Manufacturers' profit margins were thus narrowed, though they remained at historically high levels. This occurred at a time of declining output and sales, so that the flow of internal resources for investment and other purposes presumably diminished.

The prices of consumer goods rose faster than industrial producer prices, however, so that distributors' margins presumably widened further.

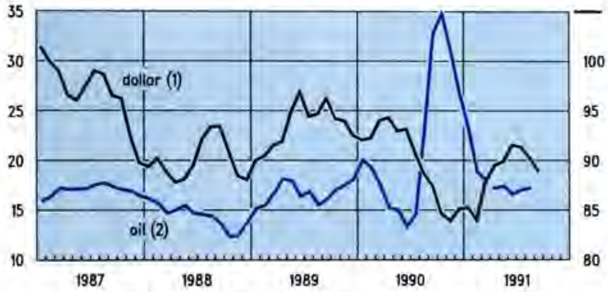
The effects on consumer prices of fluctuations in oil prices and the dollar

Between June 1989 and June 1990 there was a marked slowdown in the twelve-month rate of consumer price inflation in Italy; measured by the cost-of-living index, it fell from 7.0 to 5.6 per cent. The trend reversed during the following year, with the rate rising to 6.9 per cent in June 1991. There was a downturn in the third quarter and in September the rate was 6.2 per cent.

In 1989 and the first half of 1990 the price of Italy's oil imports averaged slightly less than $17.00 a barrel on a fob *basis, although with large variations. Following the outbreak of the Gulf crisis, prices jumped to nearly $35.00 a barrel in October. However, they started to fall again as early as November, since production increased outside Iraq and Kuwait and oil-importing countries drew on their stocks. The onset of hostilities in January did not bring the feared rise in prices, and in February Italy's import prices were lower than before the crisis. In June crude oil was being imported at $16.70 a barrel and in August at just over $17.00.*

Between mid-1989 and the end of 1990 the nominal effective exchange rate of the dollar fell by around 12 per cent. The decline continued in January and February, but reversed sharply in March (see Figure). In September, the effective exchange rate was 4.6 per cent higher than in December 1990.

The effective exchange rate of the dollar and the dollar price of Italian oil imports



Sources: Based on Ministry of Industry and IMF data.

(1) Nominal effective exchange rate of the dollar (index, 1980=100; right-hand scale). – (2) Price of crude oil imported by Italy (dollars per barrel, *fob*; left-hand scale).

A simulation exercise has been conducted to evaluate the effects on consumer price inflation of these fluctuations in the price of oil and the exchange rate of the dollar (see Table). Assuming the dollar price of oil to have been constant from the second quarter of 1990 onwards, and all other conditions to have been equal, the average rate of consumer price inflation is three tenths of a point lower than the actual rate in 1990 and almost the same as the actual value in 1991.

The impact of the increase in the dollar price of oil was greatest towards the end of 1990, accounting for more than a quarter of actual inflation during the last quarter. The effect was reversed in the first half of 1991 as oil prices fell, and in the third quarter it was negligible.

Contribution of energy prices and the exchange rate of the dollar to consumer price inflation, 1990-1991
(percentage change over previous period)

	Consumer price inflation (1)	Contribution of dollar prices of energy imports (2)	Contribution of dollar exchange rate (3)
1990 - 3rd qtr.	1.36	0.25	–0.16
4th "	2.00	0.58	–0.32
1991 - 1st qtr.	1.90	–0.43	0.02
2nd "	1.35	–0.24	0.71
3rd "	0.98	0.07	0.09

Source: Simulations generated by Bank of Italy quarterly econometric model.

(1) Consumer prices for urban wage and salary earners. Actual values. – (2) Holding the dollar prices of energy imports constant at the level of the second quarter of 1990. The incidence of taxes on refined petroleum products is also assumed constant. – (3) Holding the DM/dollar exchange rate constant at the level of the second quarter of 1990. The exchange rates of the lira against currencies other than the dollar are at their actual values.

Assuming the dollar/DM exchange rate to have been constant from the second quarter of 1990 onwards and all other conditions to have been equal, the average rate of consumer price inflation is slightly higher than the actual rate in 1990 and three tenths of a point lower in 1991. The inflationary impact is significant only in the second quarter of 1991.

Since the dollar prices of non-energy raw materials have been on a downward trend for nearly two years now, it follows that the overall effect on Italian inflation of "external" factors was negligible during the months marked by the Gulf crisis, even when account is taken of the small rise in the foreign currency prices of imported manufactures. The importance of the domestic components of inflation is thus confirmed.

Table 4

Unit variable costs and final output prices in manufacturing

(percentage changes on year-earlier period)

	1989			1990			1991
	Year	H1	H2	Year (1)	H1	H2	H1 (1)
Input prices (2)	**6.9**	**7.9**	**5.9**	**4.1**	**3.4**	**4.8**	**6.7**
Domestic (3)	6.7	6.2	7.1	9.0	8.1	9.8	10.7
of which: *energy*	*12.2*	*8.9*	*15.5*	*18.8*	*19.1*	*18.5*	*14.3*
services	*6.5*	*6.0*	*7.0*	*8.7*	*8.0*	*9.3*	*10.3*
agricultural products	*4.4*	*5.5*	*3.3*	*4.4*	*2.5*	*6.2*	*9.8*
Foreign	7.3	11.0	3.7	−4.5	−4.8	−4.3	−1.0
of which: *energy*	*20.2*	*17.2*	*23.3*	*9.4*	*−2.4*	*20.9*	*7.6*
industrial raw materials	*12.1*	*21.3*	*3.7*	*−12.8*	*−12.9*	*−12.6*	*−8.6*
semi-finished products	*6.0*	*8.7*	*3.4*	*−1.8*	*−2.0*	*−1.6*	*1.1*
Unit labour costs	**6.3**	**5.3**	**7.2**	**7.3**	7.5	7.0	8.4
Unit variable costs	**6.6**	**6.5**	**6.6**	**5.7**	**5.5**	**6.0**	**7.6**
Output prices	**5.6**	**6.3**	**4.9**	**2.7**	**3.0**	**2.4**	**2.8**
Domestic (3)	5.2	5.4	5.0	3.0	3.4	2.5	2.8

(1) Partly estimated. – (2) Domestic inputs account for 60.5 per cent of total inputs; the incidence of the latter with respect to total unit variable costs is 48.9 per cent. – (3) Weighted, net of intrasectoral transactions; domestic output prices account for 71.9 per cent of the total.

Figure 11

Costs and prices in manufacturing

(percentage changes on the corresponding period)

Source: Based on Istat data.

The prices of goods other than food and energy products rose by 4.7 per cent compared with the first half of 1990, but this figure is the average of a series of twelve-month rates that rose steadily from 4.1 per cent in January to 5.3 per cent in June. Services nonetheless remain the most inflationary sector (Figure 12); in June the twelve-month rate still exceeded that for goods other than food and energy products by more than two points.

Figure 12

Consumer prices, national indices

(percentage changes on the corresponding period)

Source: Based on Istat data.

The balance of payments on current account

Provisional unadjusted data indicate a current account deficit of 14.8 trillion lire in the first half an increase of 0.8 trillion on the first half of 1990. A further increase in the net outflow of investment income was offset by higher net earnings on foreign travel. The trade deficit on a *fob-fob* basis recorded only a small increase, so that the deterioration was due, to an almost equal extent, to unrequited official transfers and transactions related to other services, income and transfers (Table 5).

Table 5

Current account of the balance of payments on a transactions basis

(balances in billions of lire)

	1990		1991 (1)
	Year	H1	H1
Memorandum item:			
Goods (*cif-fob*)	–14,181	–11,333	–11,593
Goods (*fob-fob*)	563	–3,708	–3,900
Foreign travel	7,085	2,784	4,900
Investment income	–16,001	–7,401	–9,400
Unrequited government transfers	–3,919	–2,524	–2,800
Other services, income and transfers	–5,071	–3,203	–3,600
Total	**–17,343**	**–14,052**	**–14,800**

Source: For goods trade *cif-fob*, Istat.
(1) Provisional.

The seasonally adjusted trade deficit of 3.9 trillion lire indicates virtual balance for 1991 as a whole, in line with the results of recent years. However, the more detailed customs data on a *cif-fob* basis show that this encouraging performance was primarily due to the improvement in the terms of trade. In volume terms, the gap between imports and exports increased substantially, widening by 2.4 per cent (Table 6). At current prices the energy deficit was some 1.2 trillion lire larger than in the first six months of 1990, mainly because crude oil prices were 9.5 per cent higher on average, despite their having declined from the peak reached during the Gulf crisis.

Table 6

Foreign trade: values, prices, volumes

(percentage changes on year-earlier period)

	1990		1991
	Year	H1	H1
Exports:			
Value	5.6	7.4	3.5
Price	2.1	1.9	3.7
Volume	3.5	5.6	–0.3
Imports:			
Value	3.7	3.7	3.4
Price	–0.7	–2.0	0.9
Volume	4.5	5.9	2.3
Exports/Imports:			
Value	2.4	4.1	0.3
Price	3.0	4.0	2.7
Volume	–0.7	–0.1	–2.4
Domestic demand	1.7	2.2	1.3
World demand (1)	5.0	5.3	1.6
Real effective exchange rate (2):			
Total	4.4	6.0	0.8
EEC	2.0	3.8	0.7

Sources: Based on IMF, Istat and OECD data.
(1) Exports of the industrial countries, volume. – (2) Based on the producer prices of manufactures; a positive value indicates a loss in competitiveness.

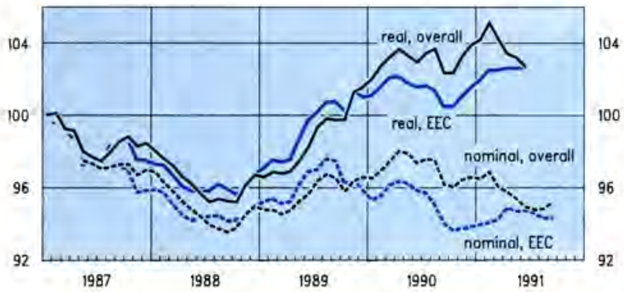
Both imports and exports continued to slow down in volume terms, and export volume actually contracted by 0.3 per cent compared with the first half of 1990 after rising by 3.5 per cent on average last year.

Export volume was influenced by the sharp downturn in the growth of world demand. Italian export growth in the first half trailed even further behind the average of the industrial countries than in 1990, and Italy's share of the total exports of the industrial countries at constant prices slipped from 6.3 per cent in the first half of 1990 to 6.2 per cent.

Earlier losses of competitiveness also acted as a brake on Italian exports (Figure 13). In the six months ending in February, when the dollar touched a low point, the effective exchange rate of the lira rose by 2.8 per cent vis-à-vis Italy's major trading partners and by 2.1 per cent against its EEC partners. The subsequent rise in the value of the dollar and the yen offset a part of the appreciation of the real exchange rate, reducing the average loss of competitiveness for the first half of the year to 0.8 per cent. The deterioration with respect to the other EEC countries was also attenuated, falling to 0.7 per cent as a result of changes in relative prices.

Figure 13

Effective exchange rates of the lira (1)
(indices, January 1987=100)



(1) Real exchange rates are based on the producer prices of manufactures. A rise in the index indicates an appreciation of the lira.

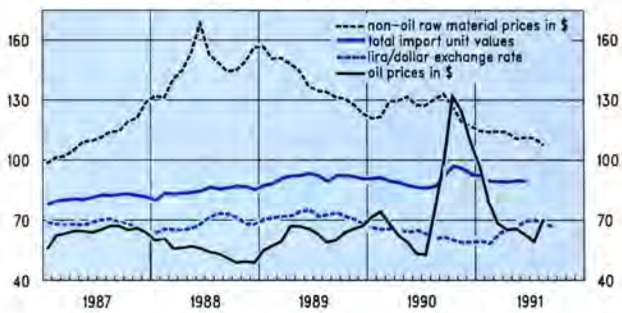
Rapid growth in Germany attenuated the impact of these factors on Italian exports. In the first six months of the year German merchandise imports were 21.2 per cent higher in volume terms than in the corresponding period of 1990, and in value terms Italy maintained the large share it had achieved in 1990 (see the insert on *Italian trade with Germany after unification*).

Imports expanded by no more than 2.3 per cent in volume in the first half, owing not only to the slowdown in the flow of industrial raw materials as output declined but also to the stagnation of investment in machinery and transport equipment and of sales of consumer durables. Net of raw materials, the increase in imports was less than 2 per cent.

The average unit value of exports was 3.7 per cent higher than in the first half of 1990. Import prices rose by only 0.9 per cent, leading to an improvement of 2.7 per cent in the terms of trade. Since the foreign currency prices of manufactured imports only rose by 0.3 per cent, import unit values benefited overall from the 10.8 per cent fall in the dollar prices of non-fuel raw materials (Figure 14). The decline in lira prices was even steeper owing to the 2.5 per cent appreciation of the lira against the dollar. This also attenuated the effect of the 12.8 per cent rise in oil import prices, which dropped from a peak of $37.30 a barrel in October 1990 to $16.80 in July and then stabilized at around $20.00.

Figure 14

Unit values of imports and main price determinants
(indices, 1985=100)



Sources: Based on IMF and Istat data.

In July and August the value of imports rose by 7.8 per cent compared with the same months of 1990, while exports expanded by only 1.9 per cent. The trade surplus was correspondingly small and nearly 1.7 trillion lire less than a year earlier. On a seasonally adjusted basis, exports in these two months were 2.7 per cent less than in the first half, while imports increased by 1.8 per cent. In the first eight months of the year, the value of exports and imports increased by respectively 3.1 and 4.3 per cent.

The larger energy deficit through August was partially offset by the 800 billion lira increase in the surplus on metal products and machinery, but the surplus on textiles, clothing and leather products decreased by 450 billion. The deficit on trade in ferrous and non-ferrous ores narrowed by 800 billion lire, owing in particular to a 6 per cent fall in imports (Table 7). The long-standing deficits on trade in food and agricultural products and chemical products widened by respectively 960 and 400 billion lire, and that on transport equipment by more than 1 trillion lire.

Italian trade with Germany after unification

Italy's trade with Germany was roughly in balance during the seventies, but increasingly large deficits were recorded in the following decade, rising to the equivalent of 1 per cent of GDP in 1989.

At current prices, Italy's share of German imports shrank from 10.8 per cent in 1972 to an all-time low of 7.3 per cent in 1981. It subsequently increased again, but never regained all the lost ground, reaching 8.9 per cent in 1989. At constant prices, the Italian share was around 8.3 per cent throughout the period.

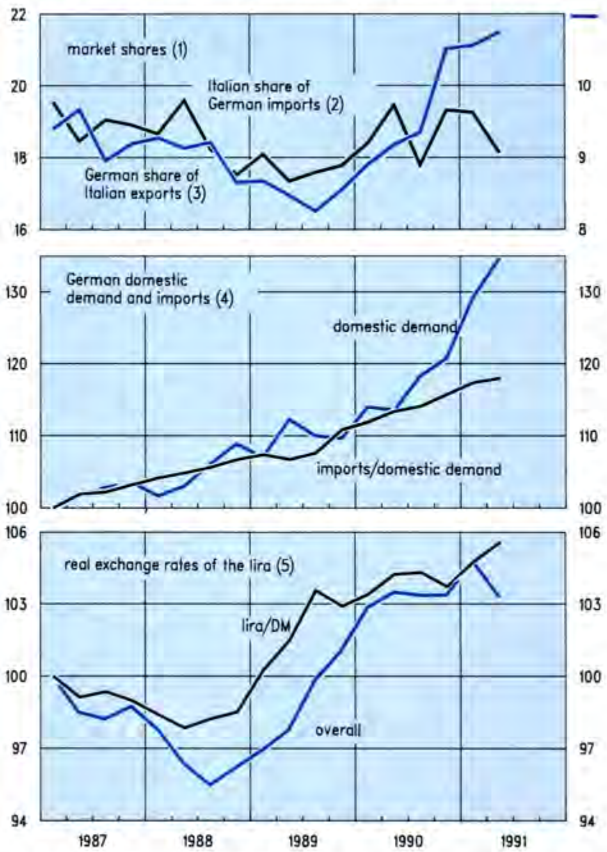
Italian merchandise exports to Germany accelerated strongly after the middle of 1989, accounting for a steadily increasing share of total exports. Since imports from Germany simultaneously slowed down, Italy's trade deficit with Germany narrowed by nearly 4.3 trillion lire in 1990; in the first six months of this year the improvement compared with the corresponding period in 1990 was almost as large.

In a matter of a few months German unification has had a marked effect on the industrial countries' trade flows. The sudden sharp rise in demand in the former GDR was met only in part by goods produced in western Germany; not only did imports of consumer goods increase but so did those of intermediate products and capital goods. On a seasonally adjusted basis, western Germany's domestic demand and imports increased in the second half of 1990 by 2.0 and 7.2 per cent respectively at constant prices. In the first half of this year domestic demand increased by 2.4 per cent and exports by 13 per cent. Import penetration, measured as the ratio of these two aggregates, rose from 29.8 per cent in 1989 to 31.7 per cent in 1990 and by another four points in the first half of this year.

Italy's share of total German imports showed a slightly rising trend in this period, albeit with pronounced fluctuations (see Figure). On a seasonally adjusted basis, Italy supplied 9.4 per cent of the total value of German imports in 1990, about half a percentage point more than in 1989. The share fell during the first half of this year but was still higher on average than in 1990.

The surge in German domestic demand in 1990 has resulted in a large increase in Italian exports, despite the decline in the overall and bilateral competitiveness of Italian industry over the last three years. In 1988 Italy supplied 20 per cent of Germany's imports of textiles and clothing, leather and footwear and wood and furniture. There are no recent statistics on the sectoral breakdown of Italian exports to Germany, but the evidence available suggests that Italy's good performance so far owes much to important non-price factors such as marketing flexibility.

Market shares; German domestic demand and imports; real exchange rates of the lira



Sources: Based on IMF, OECD, Istat and Bundesbank data.

(1) Percentages, at current prices. – (2) Ratio of Italian exports to Germany to total German imports (right-hand scale). – (3) Ratio of Italian exports to Germany to total Italian exports (left-hand scale). – (4) At 1985 prices, imports *cif*; indices: 1987(Q1) = 100. – (5) Indices: 1987(Q1) = 100; based on the producer prices of manufactured goods. An increase indicates a loss of competitiveness for Italy.

Table 7

Merchandise trade by product group

(billions of lire)

	Exports *(fob)*		Imports *(cif)*		Balance	
	January-August		January-August		January-August	
	1990	1991	1990	1991	1990	1991
Agricultural, forestry and fishery products	3,480	3,872	9,295	10,344	–5,815	–6,472
Fuel and power products	2,657	2,974	15,605	17,623	–12,948	–14,649
Ferrous and non-ferrous ores and metals	6,208	5,963	13,588	12,707	–7,560	–6,744
Non-metallic minerals and mineral products ...	5,548	5,707	2,799	2,886	2,749	2,821
Chemical products	9,977	10,208	17,605	18,242	–7,628	–8,034
Metal products and machinery	44,271	45,981	32,336	33,242	11,935	12,739
Transport equipment	14,411	14,644	17,158	18,424	–2,747	–3,780
Food, beverages and tobacco products	5,040	5,498	10,766	11,529	–5,726	–6,031
Textiles, leather products and clothing	24,735	24,563	9,383	9,659	15,352	14,904
Other	15,469	16,298	12,252	12,155	3,217	4,143
Total ...	**131,616**	**135,708**	**140,787**	**146,811**	**–9,171**	**–11,103**

Source: Istat.

The geographical breakdown of Italian trade in the first seven months reveals a sharp deterioration in the balances with the United States (1.7 trillion lire), the OPEC countries (0.9 trillion) and Eastern Europe (1.1 trillion; see Figure 15 and Table 8).

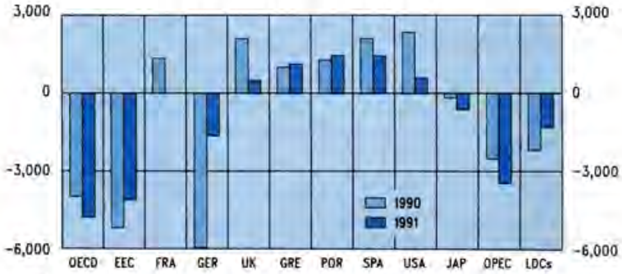
Imports from the Soviet Union rose by 30 per cent in value, primarily as a result of purchases of oil products following the stoppage of supplies from Kuwait and Iraq, while Italian exports contracted by about the same amount. The deficit with the EEC countries decreased by more than 1 trillion lire, since the sharp reduction in the deficit with Germany more than offset the deterioration in the balance with France, Spain, and the United Kingdom; the 2.7 per cent decline in Italian exports to the latter was due to the sharp contraction in British domestic demand, which outweighed Italy's exceptional 7 per cent gain in bilateral competitiveness (Table 9).

The first half saw a provisional deficit of nearly 11 trillion lire on services, investment and other income, unrequited official transfers and other transfer payments.

Figure 15

Italian merchandise trade balance with selected countries and areas January-July

(billions of lire, cif-fob)



Source: Istat.

Table 8

Italian merchandise trade by country and area

(billions of lire)

	Exports		Imports		Balance	
	January-July		January-July		January-July	
	1990	1991	1990	1991	1990	1991
EEC	**70,069**	**74,307**	**75,254**	**78,407**	**–5,185**	**–4,100**
Belgium-Luxembourg	4,130	4,275	6,592	6,666	–2,462	–2,391
France	20,303	19,467	18,960	19,448	1,343	19
Germany	22,024	26,667	27,967	28,294	–5,943	–1,627
Netherlands	3,717	3,886	7,406	7,685	–3,689	–3,799
United Kingdom	8,613	8,164	6,518	7,657	2,095	507
Ireland	337	364	927	881	–590	–517
Denmark	905	960	1,243	1,279	–338	–319
Greece	2,174	2,195	1,169	1,070	1,005	1,125
Spain	6,107	6,362	4,004	4,920	2,103	1,442
Portugal	1,759	1,967	468	507	1,291	1,460
United States	**9,330**	**8,322**	**6,979**	**7,727**	**2,351**	**595**
Japan	**2,830**	**2,796**	**3,009**	**3,410**	**–179**	**–614**
Canada	**1,063**	**953**	**1,057**	**997**	**6**	**–44**
OECD	**96,566**	**99,630**	**100,516**	**104,399**	**–3,960**	**–4,769**
Central and Eastern Europe	**3,664**	**3,222**	**4,446**	**5,153**	**–782**	**–1,931**
of which: USSR	*2,034*	*1,432*	*2,557*	*3,332*	*–523*	*–1,900*
OPEC	**5,022**	**5,648**	**7,524**	**9,089**	**–2,502**	**–3,441**
of which: Algeria	*809*	*814*	*1,695*	*2,204*	*–886*	*–1,390*
Saudi Arabia	*935*	*1,133*	*840*	*1,505*	*95*	*–372*
Libya	*657*	*961*	*2,511*	*3,000*	*–1,854*	*–2,039*
Iran	*739*	*1,259*	*790*	*1,066*	*–51*	*193*
Other	**14,867**	**15,692**	**17,034**	**17,002**	**–2,167**	**–1,310**
of which: China	*598*	*825*	*1,335*	*1,646*	*–737*	*–821*
Total	**120,109**	**124,192**	**129,520**	**135,643**	**–9,411**	**–11,451**

Source: Istat.

Table 9

Relative prices and nominal and real exchange rates of the lira
(percentage changes on previous year)

	Real exchange rate of the lira (1)(2)			Relative prices in Italy (1)			Nominal exchange rate of the lira (2)		
	1990		1991	1990		1991	1990		1991
	Year	H1	H1	Year	H1	H1	Year	H1	H1
EEC	**2.0**	**3.8**	**0.7**	**3.3**	**3.5**	**2.3**	**–1.2**	**0.2**	**–1.5**
France	1.1	2.0	2.1	3.4	3.5	2.7	–2.3	–1.5	–0.5
Germany	1.8	2.9	1.3	3.5	3.9	2.4	–1.6	–1.0	–1.1
United Kingdom	4.5	11.7	–7.0	–0.8	–0.8	–1.4	5.4	12.6	–5.6
Netherlands	3.9	6.0	2.1	5.6	7.1	3.1	–1.7	–1.1	–1.0
Belgium	1.9	3.1	2.9	4.9	5.1	4.9	–2.9	–1.9	–1.9
Spain	1.3	2.9	–0.4	2.8	2.5	2.7	–1.4	0.4	–3.0
United States	**16.0**	**14.3**	**4.3**	**1.2**	**2.9**	**1.8**	**14.7**	**11.2**	**2.5**
Canada	**18.3**	**15.7**	**4.6**	**4.7**	**5.5**	**4.2**	**13.0**	**9.7**	**0.4**
Switzerland	**0.5**	**3.3**	**0.4**	**3.5**	**3.2**	**4.3**	**–2.8**	**0.1**	**–3.7**
Japan	**24.0**	**30.7**	**–6.3**	**3.3**	**3.3**	**2.0**	**20.1**	**26.6**	**–8.1**
Total (3)	**4.4**	**6.0**	**0.8**	**3.0**	**3.4**	**2.3**	**1.4**	**2.5**	**–1.5**

Sources: Based on IMF, Istat and OECD data.
(1) Prices of industrial products. – (2) A minus sign indicates a devaluation of the lira (gain in competitiveness for the real exchange rate). – (3) The total also includes Austria and Sweden.

The 9.4 trillion lira net outflow of investment income was nearly 2 trillion more than in the first half of 1990, reflecting the increase in net foreign debt and the growing stocks of external assets and liabilities. Net foreign debt is estimated to have risen above 117 trillion lire at the end of June. The net outflow of interest payments was mitigated by the decline in international long-term interest rates between January and April.

Foreign travel recorded a surplus of 4.9 trillion lire, 2.1 trillion more than in the first half of last year; receipts rose by 1.6 trillion (17.9 per cent), while Italians' outlays abroad fell by 0.5 trillion (8.8 per cent).

The increase in the surplus on tourism is hard to interpret on the basis of the standard indicators. Spending by foreigners in Italy rose substantially, increasing by 10.8 per cent in real terms compared with the first half of 1990, though this fell short of the exceptional result recorded a year earlier. However, the sharp rise in gross receipts at unchanged competitive conditions was accompanied by a drop of more than 13 per cent in the number of tourists entering the country and by almost no change in the number of overnight stays. If the data are confirmed, per capita spending must have undergone an unusually large increase in real terms. On the other hand, the 15.7 per cent reduction in Italians' spending abroad in real terms occurred despite domestic tourist services having suffered a 2 per cent loss of competitiveness (Figure 16), owing chiefly to the appreciation of the lira against the drachma and the dinar and a fall in French relative prices. The decrease in outlays cannot be attributed entirely to the climate of uncertainty generated by the Gulf crisis. On a seasonally adjusted basis, Italians' propensity to travel abroad decreased sharply, with the ratio of spending to total national consumption falling by nearly one percentage point compared with the second half of 1990. In part this can be ascribed to the very high figures recorded in 1990 due to the difficulties of statistical attribution attendant on the introduction of the new foreign exchange data collection system. The reduction in the anomalies encountered in the gross flows suggests that these problems are being resolved.

Figure 16

International competitiveness of Italian tourist services (1)
(indices, 1980=100)

Sources: Based on OECD, IMF and Istat data.
(1) An increase indicates a loss of competitiveness.

Italy's surplus on foreign travel is also likely to have been boosted during the summer by changes in tourists' vacation plans in response to the crisis in Yugoslavia.

Istat reports a net outflow of 2.8 trillion lire stemming from official transfers in the first half of the year, compared with 2.5 trillion lire in the first half of 1990. There was a rise of 670 billion lire in net contributions to the EEC, more than offsetting a reduction of 370 billion lire in other transfer payments (official development assistance to LDCs diminished by 420 billion lire). Receipts from the European Community were 21.9 per cent higher, but contributions rose by 28 per cent. Farm subsidies from EAGGF expanded by 650 billion lire, while payments on VAT and other current transfers rose by 500 billion and 1 trillion lire respectively.

Capital movements and the exchange rate

During the first six months of 1991 net capital inflows, including bank capital and errors and omissions, totaled 20.45 trillion lire, compared with 35.4 trillion in the same period of 1990 (Table 10). Together with the larger current account deficit, this reduction slowed the rise in the official reserves, which increased by 5.7 trillion lire, net of exchange rate adjustments and the revaluation of gold, compared with 21.4 trillion in the first half of 1990.

Table 10

Net capital movements
(billions of lire)

	1990		1991 (1)
	Year	H1	H1
Foreign investment in Italy	30,580	15,571	15,500
Italian investment abroad	–32,208	–12,377	–23,800
of which: portfolio	*–23,316*	*–9,189*	*–21,500*
Foreign loans	36,171	24,561	19,000
Italian loans	–4,755	–2,906	–2,400
Trade credits, other items and errors and omissions	–20,258	–4,144	–7,300
Non-bank capital flows and errors and omissions	**9,530**	**20,705**	**1,000**
Bank capital flows (2)	**22,972**	**14,714**	**19,450**
Total	**32,502**	**35,419**	**20,450**
Memorandum item:			
Change in official reserves (3)	–15,159	–21,368	–5,650

(1) Provisional and partly estimated. – (2) Via resident banking institutions. – (3) Net of exchange-rate adjustments and the revaluation of gold.

The lifting of exchange controls has enabled Italy to participate more fully in the process of international financial integration. In 1990 gross financial flows increased by 350 trillion lire to nearly 1,000 trillion, which was two thirds more than the total value of current transactions (Table 11). The growth in financial flows has continued this year, both in absolute terms and in relation to current transactions; in the first six months gross flows increased by 255 trillion lire compared with the first half of 1990.

Net inward investment and lending totaled 34.5 trillion lire, 5.6 trillion less than in the first half of 1990; Italian net investment and lending abroad surged from 15.3 to 26.2 trillion lire.

Table 11

Size of current financial and real external flows

(trillions of lire)

	Italian capital and official reserves		Foreign capital		Total external financial flows		Total current transactions
	Gross (1)	Net (2)	Gross (1)	Net (2)	Gross (1)	Net (2)	(3)
1988	187.3	–16.2	225.6	47.8	412.9	31.6	475.1
1989	247.6	–59.9	361.4	78.4	609.0	18.5	560.6
1990	384.5	–56.2	573.0	88.9	957.5	32.7	634.2
1990 H1	177.4	–32.9	244.4	51.5	421.8	18.6	306.4
1991 H1	277.1	–28.8	400.1	49.1	677.2	20.3	329.9

(1) Sum of new transactions and completion of previous transactions. – (2) Difference between new transactions and completion of previous transactions; flows of Italian capital and official reserves change the stock of Italy's external assets, foreign capital flows change the stock of Italy's external liabilities. – (3) Sum of current inflows and outflows.

Foreigners' net investment in Italy remained virtually unchanged, but the net inflow of loans fell from 24.6 to 19 trillion lire, 5.2 trillion of which was in connection with Treasury issues. The slowdown was not only due to the drop in government funding but also reflected the removal in May of the reserve requirement on Italian banks' net foreign currency fund-raising; this led to a decline in foreign currency loans to Italian residents from the foreign branches of Italian banks, which are included under "foreign loans". Starting in May the inflow of lira loans also decreased and the slowdown became more pronounced in June, when the differential between domestic interest rates and Eurolira interbank rates narrowed. Repayments in May and June actually exceeded new loans, giving rise to a net outflow of more than 7.3 trillion lire.

Portfolio investment is provisionally estimated to have accounted for about two thirds of total net inward investment, though the net inflow was about 3.6 trillion lire less than in the first half of 1990. The Italian financial market nonetheless continues to attract foreign investors, whose total holdings amounted to about 70 trillion lire at the end of June.

The net outflow of Italian non-bank capital amounted to 2.4 trillion lire in loans and 23.8 trillion in investment. Residents responded to easier access to foreign financial markets by sharply accelerating the adjustment of their portfolios. Net outward portfolio investment, most of which came in the first quarter, amounted to 21.5 trillion lire in the first half, two-and-a-half times the corresponding figure for 1990. Gross flows of Italian portfolio investment rose from 83 to nearly 218 trillion lire.

The growth of residents' foreign bank accounts was negligible, since the 9 trillion lira outflow of deposits was matched by an inflow of the same size. The increase in residents' foreign currency accounts with Italian banks was also small: the total stock of such assets peaked in January at 5.4 trillion lire and had dropped 4.8 trillion lire by the end of June.

Capital movements not transacted via a resident Italian bank produced a net outflow of 2.1 trillion lire in the first half; nearly three quarters of the total was recorded in the first three months.

Total non-bank capital movements, including errors and omissions, resulted in a net inflow of 1 trillion lire, which was barely 10 per cent of that recorded in the first half of 1990.

There was an inflow of 19.45 trillion lire through banking channels. The increase in Italian banks' net external liabilities came mainly in May and June. The abolition of the reserve requirement on foreign currency fund-raising made it unnecessary for Italian banks to look for matching non-resident borrowers. The banks began to adjust by supplanting their foreign branches both in fund-raising abroad and in foreign currency lending to Italian residents. After tending to decline through April, banks' net external debt increased by 24.4 trillion lire in the next four months. The special credit institutions, which had never been subject to the reserve requirement, sharply reduced their foreign borrowing, and the growth of their net external liabilities slowed from 7.3 trillion lire in the first four months to 3.2 trillion in the next four.

The lira remained near the top of the narrow EMS band throughout the first half of the year. Only towards the end of the period did it edge towards the centre of the band, reflecting expectations of higher interest rates in Germany and abundant domestic liquidity, with the monetary authorities only intervening to cushion the downward movement. Between January and June the nominal effective exchange rate of the lira declined by 1.6 per cent. A small appreciation vis-à-vis the other EEC currencies was more than offset by the 14.6 per cent depreciation against the dollar.

The situation as regards capital movements did not change significantly in July and August. Inward investment continued at about the same pace as in the second quarter, while Italian investment abroad accelerated, giving rise to a net outflow of more than 10 trillion lire, 8.6 trillion of which was portfolio investment. New foreign loans partially offset reimbursements, so that there was a net outflow on this score of 0.9 trillion lire. Banking channels recorded a net inflow of 11.5 trillion lire, 9.55 trillion of which was via commercial banks. The latter further increased their foreign borrowing to nearly 10 trillion lire, about 7.9 trillion of which amount was converted into lire for domestic lending. Since only 6 trillion was hedged, the foreign exchange position was not squared. The official reserves contracted by 1.9 trillion lire and the increase since the beginning of the year consequently fell to 3.8 trillion.

The nominal effective exchange rate of the lira vis-à-vis the other EEC currencies was 0.5 per cent lower in August than in June. This was offset by the 1.8 per cent appreciation of the lira against the dollar and the overall effective exchange rate remained almost unchanged.

Public finances

In the first nine months of the year the state sector borrowing requirement, net of settlements of past debts, amounted to 104.55 trillion lire, compared with 83.23 trillion in the corresponding period in 1990 (Table 12). The increase of more than 21 trillion is not in line with the annual target since revenue grew more slowly than expected and because some of the measures in the 1991 budget and the May budget correction will only produce their effects in the final quarter of this year, together with those of a number of mainly revenue-raising provisions accompanying the Finance Bill for 1992.

Table 12

State sector borrowing requirement
(billions of lire)

	1989	1990	1991 (1)
	including settlements of past debts		
H1	44,105	47,804	58,573
January-September ...	83,584	83,439	104,586
	excluding settlements of past debts		
H1	42,701	47,659	58,568
January-September ...	82,155	83,225	104,552

(1) Provisional.

These measures will not suffice, however, to eliminate a large overshoot of the target borrowing requirement of 132 trillion lire set in the Government's Forecasting and Planning Report for this year and confirmed in the Economic and Financial Planning Document published in May. Not only is this target unachievable but the estimated outturn of 141 trillion lire presented in the Forecasting and Planning Report for 1992 is still uncertain. The new objective assumes not only 10.5 trillion of receipts from the package of measures introduced in September, but 3.5 trillion from the completion of the planned sale of state assets and just over 2.2 trillion in 1991 from the administrative measures laid down in May concerning the compulsory collection of a number of taxes.

Three phases have marked the effort to contain the deficit. The Finance Law for 1991 sought to bring the borrowing requirement on a current programmes basis, estimated at 180 trillion lire in the Government's Forecasting and Planning Report of September 1990, into line with the target of 132 trillion lire with corrective measures totaling 48 trillion.

The Treasury Minister's Report to Parliament in March raised the projected 1991 borrowing requirement on a current programmes basis to more than 190 trillion, citing both the repercussions of the shortfall of around 5.5 trillion lire in tax revenue for 1990 compared with the Government's forecast and the fact that interest rates were higher than expected because of unforeseen inflation. In May the Government introduced a package designed to close the gap by producing 14.2 trillion lire (including 1.6 trillion of savings on interest payments).

The limited effectiveness of the two corrections became apparent during the summer. Revenues from the measures accompanying the Finance Law had fallen short by more than 12 trillion lire, primarily owing to the small number of firms taking advantage of the provisions concerning the revaluation of company assets and the unlocking of retained profits held in tax-exempt reserves (–7.3 trillion) and the poor results of the tightening up on tax evasion (–3 trillion) and of measures affecting health services (–2 trillion). Additional revenues of nearly 1 trillion that had been planned in May failed to materialize because the bill to reform the tax appeal system was not enacted.

Including an estimated 2 trillion lire of unrealized savings on interest payments, the correction achieved by the Finance Law for 1991 and the package adopted in May fell nearly 15.5 trillion short of that forecast. The effect of the measures is currently estimated at just over 41 trillion lire for the year (as against the forecast of 62.2 trillion), to which 5.7 trillion can be added in respect of sales of state assets and the administrative measures introduced in May concerning the compulsory collection of some taxes.

In June the estimated borrowing requirement was revised to take account of a shortfall of 6.5 trillion lire in receipts from the self-assessed taxes due in May, due to the economic slowdown having had a stronger impact on corporate profits and self-employment income than expected, and 1.7 trillion of additional spending in the health field. The 190 trillion borrowing requirement on a current programmes basis indicated by the Treasury Minister in March accordingly rose to nearly 199 trillion. Taking account of the actual effects of the corrective measures (including the sale of assets and the administrative measures mentioned above), the borrowing requirement forecast for 1991 was therefore slightly more than 152 trillion.

At the end of September the Government presented the third package of measures (some being incorporated into the Finance Bill for 1992), whose main provisions are as follows: anticipation to this year of the ten-year capital gains tax on property, originally due from companies in 1993; suspension of individuals' right to bring their November instalment of personal and local income tax into line with their expected income for 1991; and an increase in the flat-rate withholding tax on interest from savings deposits and certificates of deposit with a maturity of less than one year. According to official estimates, these measures should result in a correction of 10.5 trillion lire and bring the total borrowing requirement close to the new target of 141 trillion.

The total reduction in the borrowing requirement achieved by the three packages should thus be 57 trillion lire (equivalent to 4 per cent of GDP), of which 26 trillion (1.9 per cent of GDP) on the revenue side. One-off measures are likely to contribute around 30.5 trillion lire, of which more than 19 trillion on the revenue side, and include almost the entire third package (more than 10 trillion), slightly more than one third of the May package (more than 4 trillion), the introduction of a VAT instalment to be paid in December 1991 (5.8 trillion) and the sale of state-owned assets (5.6 trillion).

On the basis of current trends, the state sector should be broadly in balance when interest payments are excluded (compared with the forecast of a surplus of almost 12 trillion), despite the disappointing results of the corrective measures and the negative effects of the economic slowdown on revenue (Table 13). The reduction in the borrowing requirement net of interest payments this year will be mainly due to the rise in the tax/GDP ratio, which, though almost half a point less than expected, should amount to around 2 percentage points as a result of the discretionary increases introduced with the corrective measures. However, most of the increase (equivalent to around 1.4 per cent of GDP), is of a temporary nature, especially for businesses and the self-employed. The public debt is likely to grow by around 3 per cent of GDP, which would match the expansion recorded in 1990 and bring the debt/GDP ratio to nearly 104 per cent. The ratio of public spending to GDP is expected to rise by nearly a point to more than 54 per cent, with almost half the increase attributable to the growth of expenditure other than interest payments.

Table 13

Selected state sector balances

(billions of lire and percentages)

	1989	1990	1991 (1)
Borrowing requirement, net of settlements of past debts ..	132,335	140,431	141,000
as a % of GDP	(11.1)	(10.7)	(10.0)
Settlements made in cash ...	1,065	249	....
Settlements made in securities	454	4,582	....
Total borrowing requirement ..	133,854	145,262	141,000
as a % of GDP	(11.2)	(11.1)	(10.0)
Borrowing requirement, net of interest payments and settlements of past debts ..	27,066	15,112	2,760
as a % of GDP	(2.3)	(1.2)	(0.2)
Current account deficit	78,778	91,007	94,500
as a % of GDP	(6.6)	(7.0)	(6.7)

(1) Estimates published in the Forecasting and Planning Report for 1992.

Sales of government securities in the first nine months financed almost 86 per cent of the borrowing requirement, compared with 79.8 per cent in 1990. The demand for medium and long-term securities was particularly strong and the proportion they financed rose from 49.4 to 78 per cent, while that financed by short-term paper (lira and ecu Treasury bills) fell by more than 22 percentage points to just below 8 per cent. Issue yields on government securities were lower on average than in the first nine months of 1990; those on fixed rate securities fell by almost half a point, while Treasury bill yields rose by around twenty basis points. The decline in yields also caused investors to shift towards longer maturities. The increased share of medium and long-term securities, together with investors' preference for longer-dated paper, lengthened the average residual maturity of the public debt to 2 years and 8 months at the end of September.

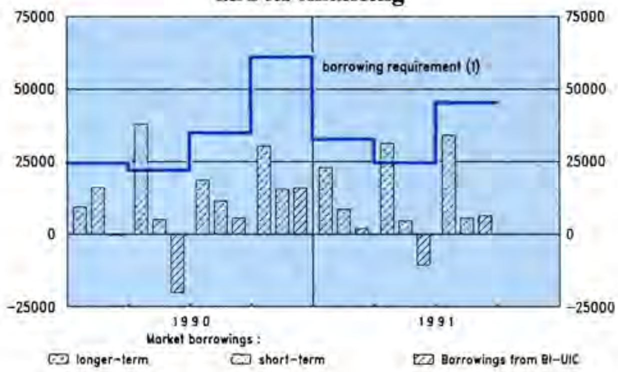
The growth in domestic sales partly offset the decline in the share of the borrowing requirement financed by funds raised abroad, which fell from 14.4 to 6 per cent; the contribution of PO deposits also fell, from 5 to 2.1 per cent. The overdraft on the Treasury's current account with the Bank of Italy financed 2.2 per cent of the borrowing requirement in January-September 1991, compared with net repayments equal to 2.5 per cent of the total a year earlier. The swing reflected the increase in the borrowing requirement compared with 1990 (Figure 17), due in turn to the unexpected drop in the balance of self-assessed taxes paid in May and to the fact that the corrective measures for 1991 will produce most of their effects in the fourth quarter. Recourse to the overdraft facility caused the amount available on the Treasury's current account to fall from 9.1 to 8.6 trillion lire between the end of September 1990 and the end of September 1991. Including the Treasury's overdraft, the public debt held by the Bank of Italy diminished slightly compared with the end of last year (the Bank's holdings of government securities having fallen by just over 4 trillion lire).

Central government tax revenue amounted to 262.12 trillion lire in the first nine months, an increase of 9.2 per cent compared with the corresponding period in 1990 (Table 14).

The 7.8 per cent rise in direct taxes reflected the smaller balance of self-assessed taxes paid in May and the fact that receipts from the revaluation of corporate assets and the unlocking of tax-exempt reserves were much smaller than forecast in the Finance Law for 1991. On the other hand, the budget measures (strengthened by the package introduced in May) and the effects of those adopted in May 1990 led to a 10.7 per cent rise in indirect taxes thanks to the discretionary increases in excises (notably the tax on oil products and stamp duty).

Figure 17

State sector borrowing requirement and its financing



(1) Gross of settlements of past debts.

The bulk of the growth in direct taxes came from the 10.1 per cent rise in personal income tax receipts in the first nine months. The renewal of a number of contracts in the private sector at the end of last year and the effects of the public sector contracts settled earlier in 1990 led to an unexpectedly large 14 per cent rise in the withholding tax on pensions and public and private sector wages and salaries; withholdings on self-employment income also rose considerably (13.2 per cent).

The downturn of the economy in 1990 appears to have been decisive in reducing the balance of self-assessed taxes paid in May 1991. The fall was accentuated by the drastic slowdown in the growth of corporate profits and income from self-employment, and by the fact that the tax instalments paid in 1990 were only partially adjusted to reflect lower prospective earnings, especially among small companies and the self-employed.

3

Table 14

State sector tax revenues (1)

(billions of lire; % changes on year-earlier period)

	January-June		1991/1990	January-September		1991/1990
	1990	1991 (2)		1990	1991 (2)	
Direct taxes						
Personal income tax	54,451	61,196	12.4	78,099	85,978	10.1
of which: withholding tax on public sector wages and salaries	*8,528*	*10,088*	*18.3*	*13,524*	*15,743*	*16.4*
withholding tax on pensions and private sector earned income	*27,980*	*33,245*	*18.8*	*43,918*	*49,635*	*13.0*
self-assessed balances	*6,980*	*6,359*	*–8.9*	*6,991*	*6,402*	*–8.4*
self-assessed instalments	*4,886*	*5,030*	*2.9*	*4,897*	*5,061*	*3.3*
Corporate income tax	7,709	7,010	–9.1	11,018	10,675	–3.1
of which: self-assessed balances	*3,482*	*3,205*	*–8.0*	*5,075*	*5,138*	*1.2*
self-assessed instalments	*4,007*	*3,551*	*–11.4*	*5,614*	*5,198*	*–7.4*
Local income tax	10,501	9,300	–11.4	12,812	11,807	–7.8
of which: personal income tax	*4,641*	*4,033*	*–13.1*	*4,674*	*4,052*	*–13.3*
self-assessed balances	*2,728*	*2,499*	*–8.4*	*2,752*	*2,515*	*–8.6*
self-assessed instalments	*1,913*	*1,534*	*–19.8*	*1,922*	*1,537*	*–20.0*
corporate income tax	*5,504*	*4,894*	*–11.1*	*7,624*	*7,250*	*–4.9*
self-assessed balances	*2,457*	*2,146*	*–12.7*	*3,478*	*3,351*	*–3.7*
self-assessed instalments	*3,047*	*2,748*	*–9.8*	*4,146*	*3,899*	*–6.0*
Withholding tax on interest income	9,424	8,834	–6.3	17,924	19,706	9.9
of which: in respect of bank deposits	*3,223*	*2,307*	*–28.4*	*8,410*	*7,839*	*–6.8*
in respect of government securities (3)	*4,294*	*4,331*	*0.9*	*6,557*	*8,288*	*26.4*
Withholding tax on dividends	1,436	1,433	–0.2	2,273	2,331	2.6
Other (4)	925	1,451	56.9	1,162	2,455	111.3
Total	**84,446**	**89,224**	**5.7**	**123,288**	**132,952**	**7.8**
Indirect taxes						
VAT (5)	45,606	47,100	3.3	64,771	69,607	7.5
Other business taxes (6)	12,842	14,486	12.8	18,186	20,320	11.7
Excise taxes on oil products	14,573	15,589	7.0	22,329	24,059	7.7
Other excise and sales taxes (6)	3,041	5,291	74.0	4,936	8,164	65.4
Tobacco taxes	2,940	3,093	5.2	4,417	4,582	3.7
Gaming taxes	1,412	1,600	13.3	1,942	2,354	21.2
Other	48	44	–8.3	70	77	10.0
Total	**80,462**	**87,203**	**8.4**	**116,651**	**129,163**	**10.7**
Total tax revenues	**164,908**	**176,427**	**7.0**	**239,939**	**262,115**	**9.2**

Sources: Bank of Italy and Ministry of the Treasury.

(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) The figure for 1991 includes revenues from the revaluation of corporate assets and the unlocking of retained profits held in tax-exempt reserves: 491 billion lire in the first six months, 1,094 billion in the first nine months. – (5) Includes the receipts used to settle tax credits and those accruing to the EEC. – (6) 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.

Despite the 25 per cent increase in imputed property income and the higher coefficients introduced in the 1991 budget for assessing the incomes of the self-employed and smaller firms, the balance of individuals' self-assessed personal and local income taxes declined by 8.5 per cent. When account is taken of the effects of budgetary measures, of the increase in imputed property income on the local income tax base and of the instalments paid in 1990, the incomes of the self-employed and small companies appear to have remained broadly unchanged. Receipts also fell because the revised tax rates and deductions enacted in 1989 gave rise to tax credits in 1990 totaling between 0.5 and 1 trillion lire, which taxpayers deducted from their May 1991 returns. Finally, the 20 per cent decline in the local income tax instalments of individuals reflected the exemption from this tax that the Finance Law granted to certain categories of small business from 1991 onwards, in accordance with various sentences of the Constitutional Court.

Receipts of corporate income tax indicate that companies' taxable income also remained basically unchanged. The modest growth of the withholding tax on dividends was another sign of the slowdown in corporate profitability.

Revenue from self-assessed corporate income tax remained virtually unchanged compared with 1990. The decline in instalments this year was mainly due to the lower level of profitability in 1990. The revaluation of assets and the unlocking of tax-exempt reserves, which had been expected to produce 8.4 trillion lire, brought in just under 1.1 trillion (included in other direct taxes in Table 14).

Revenue from the withholding tax on interest payments rose by around 9.9 per cent, primarily as a result of the 26.4 per cent rise in the yield in respect of government securities. Just under half this rise was due to the increase in the stock of securities and the rest to tax-exempt securities being replaced by taxed securities. The withholding tax on interest earned on bonds issued by firms and special credit institutions also grew strongly. By contrast, the withholding tax on bank deposit interest payments declined by 6.8 per cent, since tax credits estimated at just over 500 billion lire were offset against the first instalment due at the end of June.

Taxes and duties on business increased by 8.4 per cent as a result of the 1991 budget measures. However, the comparison with the year-earlier period is distorted by the effect of strikes in the banking sector, which caused between 1 and 1.5 trillion of VAT payments attributable to 1989 to be collected in 1990. Net of this effect, the rate of growth was around 10 per cent. Total VAT revenues also rose by around 10 per cent on a similarly adjusted basis. The 9.7 per cent rise in the import component reflected the shorter time limits introduced in May for paying the tax collected in customs. This caused receipts to accelerate in September from a growth rate that had been in line with the relatively slow expansion of the value of imports in the first eight months of the year (4.3 per cent). Domestic VAT revenue rose by more than 10 per cent, keeping pace with nominal consumption. Receipts accelerated slightly in September owing to the higher VAT rates that were introduced in May as a further step towards Community harmonization. This was only partly offset by the temporary extension at the end of 1990 of the lower rate applied to footwear.

The 11.7 per cent rise in other business levies was attributable to the increases in stamp duty, regional taxes on motor vehicle ownership and the TV licence fee introduced in the 1991 budget, producing more than 2 trillion lire of additional revenue.

Taxes on production and consumption rose by 17.2 per cent, boosted by the 1991 budget measures, which covered virtually the entire tax base. The largest increase was in the excise taxes on oil products and methane, which fully reflected the higher rate introduced in May 1990 (estimated to have increased revenue by around 1 trillion lire). The excise tax on oil products increased by 7.7 per cent, or 1.4 trillion lire, despite the longer time allowed to pay the tax from the beginning of the year. The yield benefited from the higher rate on diesel fuel, which rose by an average of 25 per cent compared with the the first nine months of 1990. By contrast, the average rise in the excise tax on petrol was only around 5 per cent despite the increases introduced in the first quarter to offset the decline in production prices after the Gulf war ended. However, at the end of September the excise tax on petrol was slightly below the level foreseen in the Finance Law for 1991, owing to repeated rate reductions in the second and third quarters to offset rises in production prices.

As things stand, tax revenue for the year should increase by more than 15 per cent. Tax revenue should rise by around 1.8 percentage points to 26.5 per cent of GDP, which would be about 0.4 points lower than the target set in the Economic and Financial Planning Document published in May.

State sector outlays in the first half of 1991 amounted to 284.65 trillion lire, an increase of 10.2 per cent on the first half of 1990 (Table 15). The increase was especially large for disbursements on capital account and interest payments, which rose respectively by 15.2 and 12.7 per cent. Current expenditure net of interest payments rose by 10 per cent, while financial items declined by 11.3 per cent.

Table 15

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

	1990 H1	1991 H1	1991 H1 / 1990 H1
Current expenditure	**228,347**	**252,701**	**10.7**
Wages, salaries and pensions	55,070	59,741	8.5
of which: wages and salaries	*42,064*	*45,106*	*7.2*
Goods and services	11,523	11,412	–1.0
Current transfers	94,015	105,928	12.7
of which to: social security institutions	*22,064*	*24,565*	*11.3*
regions	*37,141*	*45,451*	*22.4*
communes and provinces	*16,860*	*16,313*	*–3.2*
households	*8,049*	*8,227*	*2.2*
enterprises	*5,421*	*5,943*	*9.6*
Net interest payments	59,239	66,742	12.7
Capital expenditure	**20,558**	**23,678**	**15.2**
of which: fixed capital	*7,702*	*9,077*	*17.9*
capital transfers	*12,661*	*14,025*	*10.8*
Financial items	**9,314**	**8,266**	**–11.3**
of which: investments	*440*	*1,056*	*140.0*
loans and advances	*8,874*	*6,635*	*–25.2*
Total expenditure	**258,219**	**284,645**	**10.2**

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

Compared with the first half of 1990, state sector spending on wages and salaries rose by 7.2 per cent, a slightly lower rate than that forecast for the year as a whole. Cost-of-living allowances accounted for around 3 percentage points of the rise and the growth in employment for an estimated half a point. Most of the rest was due to increases in wages and salaries provided for in the 1988-90 contracts, the last tranches of which fell due in the second half of 1990 and the first half of this year.

Interest payments, adjusted for the delay in recording an estimated 1.3 trillion of withholding tax in respect of government securities, amounted to 68 trillion lire, an increase of 14.8 per cent compared with the first half of 1990.

Interest payments on Treasury bills rose by 6.4 per cent compared with the first half of 1990 and accounted for 29 per cent of the total. The rise reflected the moderate recourse to Treasury bills to finance the borrowing requirement in the first half of the year, together with rates that were virtually unchanged compared with the year-earlier period. The interest paid on Treasury credit certificates increased by 20.4 per cent and accounted for 42 per cent of the total; nearly 14 percentage points of this increase stemmed from the growth in the volume of securities, the rest being attributable to changes in interest rates on Treasury bills, which are reflected in Treasury credit certificate coupons with an average lag of around one year. Interest payments on Treasury bonds increased by 1.7 per cent and accounted for almost 15 per cent of the total; the 6.5 per cent reduction in the stock of Treasury bonds in the twelve months to December 1990 was more than offset by the rise in interest rates.

Purchases of goods and services fell by 1 per cent, as a result of the cuts in allocations imposed by the Finance Law and a temporary increase in the backlog of budget payments.

Current transfer payments to regions increased by 22.4 per cent, largely in connection with the financing of the National Health Fund, allocations to which were increased by around 10 trillion lire by the Finance Law for 1991 in order to reduce the accumulation of hidden debt. Transfer payments to the social security institutions increased by 11.3 per cent; net of the contributions charged to the budget, those to INPS rose by 12 per cent to 21.08 trillion lire. When account is taken of the contributions attributable to the National Health Fund for the first half of the year but which INPS has not yet paid to the Treasury, the deficit recorded by INPS in the first half was less than 6/13 of the transfers to the Institute budgeted for the whole year (58.5 trillion lire).

The growth in the funding required by the social security institutions reflected the large gap between the pension increases disbursed in 1990 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. To make good the shortfall, pensions were raised by around 2.7 per cent at the beginning of this year and back payments made amounting to nearly 1.2 per cent of the annual total. Spending was also boosted by Law no. 59 of 27 February 1991, which provided for INPS pensions above the minimum and civil service pensions to be revalued gradually according to a formula based on the year they became payable. For the second consecutive year, however, the mechanism for adjusting pensions on the basis of real earnings was not triggered, since the relevant index again remained unchanged in the reference period.

The rise in transfer payments to the social security institutions was moderated by the rapid growth in contributions (11.6 per cent), which is expected to exceed that of the base by around one point for the year as a whole. The growth in the first half was curbed by the reductions in the rates manufacturing employers had to pay (1.2 percentage points in the Centre-North and 2.1 points in the South). On the other hand, receipts were boosted by the new 0.9 per cent contribution designed to finance special benefits paid by the Wage Supplementation Fund, the higher social security contribution rates imposed on local authority employees and the proceeds of the contribution condonation scheme enacted in September 1990 (around 1.5 trillion lire). In addition, the contributions payable by employees were raised by 0.25 points and those payable by the self-employed increased from 12 to 13 per cent from May onwards.

As regards expenditure on capital account, direct investment increased from 7.7 to 9.1 trillion lire; this 17.9 per cent rise was almost entirely attributable to the large increase, from 4.5 to 5.8 trillion, in the disbursements of the autonomous government agencies and the State Railways.

The reduction in financial transactions from 9.3 to 8.3 trillion lire reflected the sharp drop, from 2.3 to 0.5 trillion, in loans disbursed by the Deposits and Loans Fund to make good the deficits of local health units. As a result of the cap imposed on Fund lending to communes and provinces, these disbursements fell to 3.85 trillion lire (after declining from 5.2 to 4.18 trillion between the first half of 1989 and the first half of 1990). By contrast, outlays on participations and contributions of capital and Fund lending to the autonomous government agencies increased.

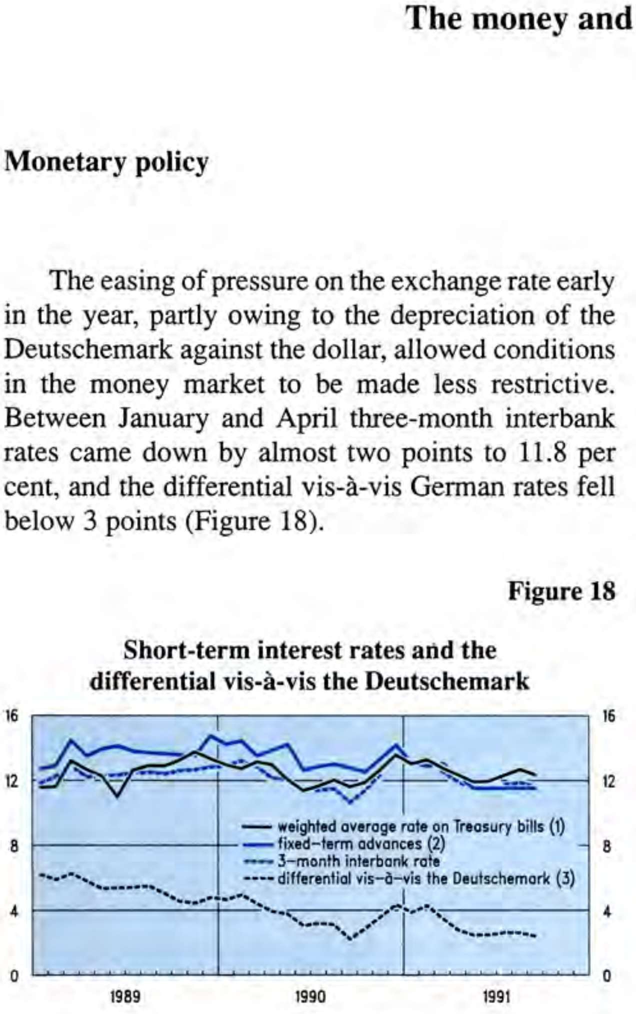
The money and financial markets

Monetary policy

The easing of pressure on the exchange rate early in the year, partly owing to the depreciation of the Deutschemark against the dollar, allowed conditions in the money market to be made less restrictive. Between January and April three-month interbank rates came down by almost two points to 11.8 per cent, and the differential vis-à-vis German rates fell below 3 points (Figure 18).

Figure 18

Short-term interest rates and the differential vis-à-vis the Deutschemark



(1) Weighted average of simple pre-tax tender yields. - (2) Weighted average of effective rates. - (3) Difference between the Italian 3-month interbank rate and the corresponding German rate.

Bank lending rates remained high until April; conditions favouring a reduction were created in mid-May by the cut in the discount rate from 12.5 to 11.5 per cent. However, accelerating inflation and the worsening budget deficit made it necessary to maintain a restrictive monetary policy stance, so that during the spring real interest rates and exchange rates remained close to the previous year's peaks (Figure 19).

Starting in June the market's perception of a widening gap between the borrowing requirement and the target set for it in the Finance Law, together with expectations of an increase in German official rates, caused the rates on government securities to rise. Despite strong demand, the auction yields on seven and ten-year Treasury bonds increased by more than 0.6 points in June and July and those on Treasury credit certificates by almost as much. Treasury bill auction rates rose from their June low until August. The lira also weakened temporarily and fell below its central rate against the Deutschemark at the beginning of August. The monetary authorities sent a stability-oriented signal to the market: by limiting the supply of temporary financing, they allowed currency outflows to determine a moderate tightening of liquidity conditions (see insert on *Bank of Italy intervention in the money market*).

Figure 19

Nominal and real interest rates and exchange rates

(1) In percentages. – (2) Right-hand scale. The deflator is the effective change in consumer prices over the six months following the observation period on an annual basis. Data for the last quarter are partly estimated. – (3) Indices of the effective exchange rate of the lira vis-à-vis the currencies of Italy's 14 leading trading partners, 1985=100. The real exchange rate is based on the producer prices of manufacturers. A rise in the indices reflects an appreciation of the lira and a loss of competitiveness for the real exchange rate.

The tension abated immediately after the Bundesbank's announcement of a small increase in German official rates. In the subsequent weeks yields on interbank deposits and government securities declined across the board; the lira appreciated within the EMS and in September its average rate against the Deutschemark was above the central rate.

Table 16

Monetary base
(changes in billions of lire)

	1990 (1)		1991 (2)
	Jan.-Sept.	Year	Jan.-Sept.
Sources			
Foreign sector	23,801	15,454	3,589
Treasury	–2,326	–1,383	–9,761
Borrowing requirement	*83,439*	*145,262*	*104,585*
(excluding settlements of past debts)	*83,225*	*140,431*	*104,572*
Outstanding securities excluding BI	*–66,698*	*–114,648*	*–101,474*
Other financing (3)	*–19,067*	*–31,997*	*–12,872*
Open market	–12,649	2,392	7,423
Refinancing of banks	–1,371	1,260	–3,712
Other sectors	–4,498	–4,048	–1,808
Total ...	**2,957**	**13,675**	**–4,269**
Uses			
Currency in circulation ...	–3,934	1,780	443
Bank reserves	6,891	11,895	–4,711
Deposits with BI	8,020	10,745	–2816
Memorandum item: compulsory reserves (4)	*8,342*	*13,026*	*–2,510*
Other items (5)	–1,130	1,150	–1,895

(1) The data reflect the abnormal expansion of monetary base resulting from strikes in the banking sector at the end of 1989. – (2) Provisional. – (3) Includes PO deposits, foreign loans and other items. – (4) From October 1990 onwards, average reserve requirement; until May 1991 includes the compulsory reserve on net foreign currency deposits. – (5) Vault cash and undrawn margin of ordinary advances.

Monetary base contracted by 4.3 trillion lire in the first nine months of the year, compared with an expansion of 3 trillion in the corresponding period in 1990 (Table 16). Two main factors of opposite sign were involved. Compulsory reserves fell by 2.5 trillion, as against an increase of 8.3 trillion in the first three quarters of 1990. The abolition of the reserve requirement on banks' net foreign currency fund-raising and repurchase agreements in May and the slowdown in the growth of the monetary aggregates contributed equally to the contraction. On the other hand, currency in circulation increased by 400 billion lire, compared with a year-earlier fall of 3.9 trillion in connection with the abnormal expansion caused by bank strikes at the beginning of 1990. As regards the channels of monetary base creation, the external sector's contribution in the first nine months fell from 23.8 to 3.6 trillion, while monetary base financing of the Treasury resulted in the destruction of 9.8 trillion, as against 2.3 trillion. These effects were partly offset by the creation of 7.4 trillion of monetary base through open market operations, compared with the destruction of 12.6 trillion in the year-earlier period. The seasonally adjusted annual growth rate of monetary base, calculated on average data and adjusted to take account of the reduction in the average reserve requirement in June, was 9.2 per cent in the first nine months of 1991, as against 10.1 per cent in 1990 as a whole (Table 17).

Table 17

Monetary variables
(percentage changes) (1)

	1990		1991 (2)
	Jan.-Sept.	Year	Jan.-Sept.
Bank reserves (3)	8.5	10.4	7.5
Monetary base (3) ...	9.7	10.1	9.2
Bank deposits	8.7	9.2	5.9
Money supply (M2) ..	9.6	9.9	7.1

(1) On an annual basis and seasonally adjusted. Bank reserves and monetary base calculated as averages of daily data for the mid-month to mid-month maintenance period, bank deposits and the money supply as calendar month averages. The figures on the money supply are net of securities repurchase agreements. – (2) Provisional. – (3) Corrected for the change in the compulsory reserve ratio.

Bank of Italy intervention in the money market

In March and April, partly owing to the appreciation of the dollar, the lira recovered against the main European currencies to become the strongest of the narrow-band currencies for the first time since September. The Bank of Italy did not fully offset the monetary effects of the inflow of foreign exchange, and liquidity conditions eased. The 3-month interest rate differential vis-à-vis the Deutschemark narrowed by about one and a half points compared with February to less than 3 points (see Figure). The decline in interbank rates was transmitted to the entire structure of yields on government securities. The after-tax tender rate on Treasury bills dropped from 11.4 per cent in February to 10.7 per cent in April, while that on 7-year bonds fell from 12.2 to 11.2 per cent.

The lira continued strong in early May, even after the half-point reduction in the US discount rate and the consequent downward pressure on the dollar. In the middle of the month, following the Government's approval of a package of measures to bring the projected budget deficit closer to the target for the year, the official discount rate was lowered from 12.5 to 11.5 per cent. At the same time the instruments of monetary control were reinforced, as the central bank was given discretionary power to set the penalty rate on fixed-term advances up to 1.75 points depending on liquidity conditions. The Bank initially put the penalty at zero. The reference aggregate for compulsory reserves was redefined to exclude banks' repurchase agreements with customers and their net external fund-raising. Though largely already discounted by the market, the lowering of the discount rate was reflected in Treasury bill tender rates, which declined by an average of 30 basis points to 10.2 per cent. Yields on longer-term paper fell by around 40 basis points. Despite the further narrowing of the short-term interest rate differential vis-à-vis the DM to around 2.5 points, the lira remained in the upper part of the EMS band.

In June, uncertainty over the public finances triggered a rise in the yields of medium and long-term government securities in the secondary market. The tension spread to the primary market, and at the mid-month auction the after-tax tender rate on 7-year bonds was 11.6 per cent, 60 basis points higher than in May. The Bank of Italy countered the softening of the market by making 2.6 trillion of net purchases, mostly of fixed rate paper. Moreover, to attenuate the restrictive effect of the Treasury's seasonal cash surplus of 8 trillion lire, the Bank provided liquidity to the system by way of securities repurchase agreements totaling nearly 29 trillion gross; the banks' average indebtedness with the central bank rose to over 14 trillion lire in June. In the same month compulsory reserves fell by nearly 5 trillion as a result of the aforementioned change in the reference aggregate in May.

In July the central bank intervened to curb the tendency for interest rates to rise. It made net outright purchases, mostly of Treasury bonds, amounting to 3.7 trillion lire and at the end-month auction bought 1.4 trillion of 12-month Treasury bills to make good the shortfall in demand. The rise in rates was held to about 30 basis points at both ends of the market.

In the first half of August the lira weakened, owing to expectations of a rise in official rates in Germany, and fell below its central rate with the DM for the first time since February. The restrictive effect of the foreign exchange outflow was partly offset by an injection of funds through open market operations, and the short-term interest rate differential with respect to the German currency remained virtually unchanged at around 2.6 percentage points since rates rose by about 20 basis points in both countries. The 3-month interbank rate rose to 11.9 per cent on average for the month. The Bundesbank's decision to raise the official discount rate by 1 percentage point and the Lombard rate by a quarter of a point, which had been largely discounted by the market, had no repercussions on the lira, which actually strengthened in the last few days of the month to become the

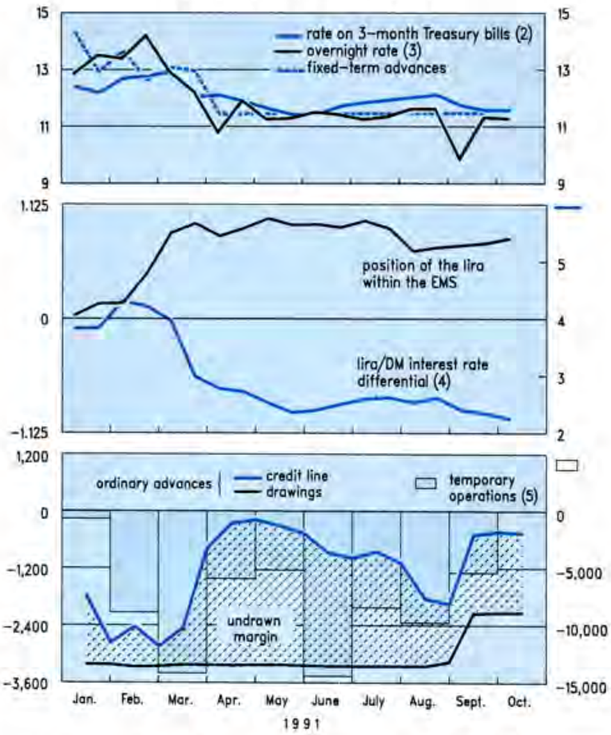
Based on average monthly data, the annual rate of growth in M2 fell from 9.9 per cent in 1990 to 7.1 per cent in the first nine months of this year. Higher average short-term rates, the slowdown of the economy and, in the final months, the decline in inflation helped to keep the growth within the target range of 5-8 per cent (Figure 20). The growth in M2 on the basis of end-of-period data, which includes banks' repurchase agreements, reflected the fuller reporting of these operations following the measure exempting them from the reserve requirement (Table a38).

Money supply growth remained moderate despite the large increase in the borrowing requirement since demand for government securities was generally strong. At the beginning of March investors' propensity to buy longer-dated paper *strongest currency in the narrow band, together with the Belgian franc. The emergence of a positive differential between money market rates and the discount rate prompted greater recourse to fixed term advances, which rose to an average of 1.3 trillion lire for the month, the highest level of the year.*

In September the easing of the upward pressure exerted by foreign rates and signs of a slowdown in inflation led to a resumption of the decline in money market rates. As the deadline for compliance with the monthly reserve requirement neared, the overnight rate fell significantly and averaged less than 10 per cent for the first half of the month, while one and three-month interbank rates approached the discount rate. The differential vis-à-vis the DM narrowed to 2.4 percentage points, but the lira remained stable close to its bilateral central rate. The start of trading in Italian Treasury bond futures in Paris and London and the first reimbursements of withholding tax to foreign investors in Italian government securities led to a decline in medium and long-term rates as well, with the result that the yield curve became flatter. The after-tax yield on 7-year bonds fell by 40 basis points to 11.2 per cent at the end of the month.

In the early part of October the lira was stable within the fluctuation band and money market rates remained at the levels recorded in September. However, medium and long-term interest rates continued to decline; the first auctions of the month produced after-tax yields of 11.1 per cent on both 5-year and 10-year bonds, a drop of 40 basis points compared with September. On 15 October the share of compulsory reserves banks may mobilize was increased from 3 to 5 per cent, as provided for by the 20 January 1989 resolution of the Interministerial Committee for Credit and Savings. At the same time the Bank of Italy announced that in future it would set itsrepos rates with reference to the gross yield on the securities exchanged, thereby standardizing the rates on agreements involving securities subject to different levels of taxation.

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



(1) Except for 3-month Treasury bills and temporary operations, 15-day averages of daily figures. – (2) Simple gross interest rates at auction. – (3) Weighted average of bid-asked prices. – (4) The difference between the Italian 3-month interbank rate and the equivalent German rate. – (5) Net position of the banking system vis-à-vis the central bank in respect of temporary operations.

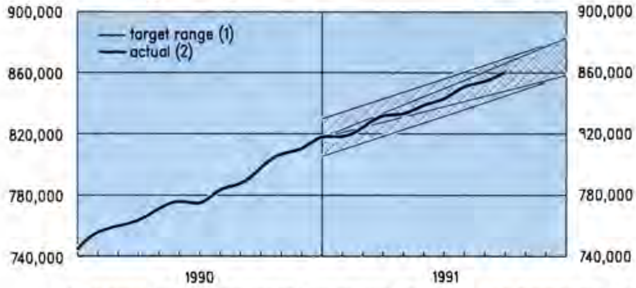
made it possible to launch ten-year Treasury bonds, which, together with seven-year bonds, financed 38.2 per cent of the borrowing requirement in the first nine months of the year. The lengthening of maturities was also reflected in a large reduction in net issues of Treasury bills, from 29.6 trillion in the first nine months of 1990 to 8.9 trillion, respectively 35.5 and 8.6 per cent of the borrowing requirement. Between January and July the non-state sector's holdings of medium and long-term securities grew nearly twice as fast as the sector's total financial assets (by 19.8 per cent as against 11 per cent), and their share of the total rose from 29.8 per cent in December 1990 to 31.7 per cent (Table 18). By contrast, the growth in the short-term securities included in M3 slowed down.

As in recent years, the credit aggregates expanded rapidly in comparison with nominal GDP. The business cycle affected manufacturing industry's demand for credit in two ways: the economic downturn reduced production-related borrowing, while the deterioration in firms' profitability and the need to finance larger stocks of finished products fueled the demand for funds. Domestic finance to the non-state sector rose by 14.5 per cent on an annual basis between January and August, compared with 15.4 per cent in 1990 as a whole. Total credit, including both foreign and domestic borrowing by all sectors, grew by 12.3 per cent in the same period, compared with 14.6 per cent in 1990.

Figure 20

Money supply (M2)

(target range and actual; billions of lire)



(1) The lower limit was 5 per cent and the upper limit 8 per cent. – (2) Average monthly data, seasonally adjusted and excluding banks' customer repurchase agreements.

Table 18

Financial assets and credit

(percentage changes and compostion; end-of-period data)

	Change			Composition of stocks	
	1990		1991	1990	1991
	Year	Jan.-July (1)	Jan.-July (1)	Dec.	July
Financial assets (2)	**12.2**	**11.2**	**11.0**	**100.0**	**100.0**
M2	11.7	8.4	5.0	48.9	46.3
Treasury bills and acceptances	12.8	15.3	9.4	15.5	16.0
Medium and long-term securities	14.1	16.0	19.8	29.8	31.7
Other (3)	20.9	21.5	14.3	5.8	6.0
	Year	Jan.-Aug. (1)	Jan.-Aug. (1)	Dec.	Aug.
Total credit	**14.6**	**11.9**	**12.3**	**100.0**	**100.0**
Domestic finance to the non-state sector	15.4	14.0	14.5	37.5	37.4
banks	*17.2*	*14.1*	*14.4*	*23.7*	*23.5*
special credit institutions	*16.0*	*17.6*	*15.6*	*12.4*	*12.5*
bonds	*–10.5*	*–9.0*	*7.7*	*1.4*	*1.4*
Domestic finance to the state sector	11.7	6.8	9.7	57.0	56.7
Foreign finance	46.3	66.8	24.7	5.5	5.9

(1) On an annual basis, seasonally adjusted. – (2) Financial assets of the non-state sector, excluding direct holdings of shares. – (3) Units of investment funds, special credit institution CDs and foreign assets.

The activity of credit intermediaries

Bank lending rates continued to rise until March with a lag on the restrictive conditions obtaining at the end of 1990. Average lending rates started to come down after the cut in the discount rate and by July had fallen by 0.7 points. The differential between the average lending rate and the average rate on six-month Treasury bills widened until May and then narrowed again (Figure 21). The difference between the average and minimum lending rates increased in the first half of the year, partly owing to banks differentiating among their customers to a greater extent.

Figure 21

Rates on bank loans and Treasury bills

On the liabilities side, yields on both ordinary deposits and CDs remained basically unchanged in the first four months; in the next two months they fell by around 0.3 points, after the discount rate was reduced. In the first seven months of the year the spread between average lending and deposit rates was close to its average value in 1990.

The twelve-month growth in bank lending, including both domestic and foreign branches and foreign currency loans, fell from 19.9 per cent in December 1990 to 16 per cent in August. The link with the business cycle was evident in the distribution of loans by category of borrower (Table 19). Typically production-related lending, such as that to non-financial companies, producer households and leasing and factoring firms, slowed down, while that to holding companies and the sectors directly or indirectly financing consumption accelerated.

The composition of bank loans and deposits was affected by the abolition in May of the reserve requirement on banks' net foreign currency fund-raising, which eliminated the incentive for banks to fund loans to resident customers abroad. Loans by Italian banks' foreign branches, around half of which are denominated in foreign currency, continued to expand until April, rising from 30 trillion in December 1990 to almost 47 trillion lire in April; they subsequently fell abruptly, to around 35 trillion in August. Conversely, lending by the domestic network accelerated from May onwards, the largest increase coming in the foreign currency component as business was transferred from foreign branches; between June and August this component of domestic bank lending rose at an annual rate of 51 per cent, as against 17.4 per cent for lira loans. In addition, currency substitution increased as banks raised more funds in foreign currency to finance loans in lire.

The growth in bank deposits was moderate despite the narrowing of the rate differential between Treasury bills and bank deposits; on the basis of average monthly data, bank deposits grew by 5.9 per cent between January and September, compared with 9.2 per cent in 1990 as a whole. The slowdown was due to the factors affecting the demand for money described above and was accompanied by a further rise in the share of certificates of deposit, from 18 to 21.6 per cent of the total stock of deposits in the twelve months to September. The tax incentive to hold CDs with a maturity beyond the short term raised their share of all CDs outstanding from 37 to 42.2 per cent in the twelve months to July. These instruments' relative tax advantage has been further increased by the recent rise in the flat-rate withholding tax on interest from CDs with a maturity not exceeding twelve months. Banks' customer repurchase agreements more than doubled between April and July after they were exempted from the reserve requirement.

Deposits at Italian banks' foreign branches grew by 13.3 trillion lire in the first seven months, with 12.3 trillion coming from non-resident customers. The growth slowed down somewhat towards the end of the first half, following the abolition of the reserve requirement on foreign currency fund-raising in May.

Table 19

Loans outstanding to companies and households (1)
(stocks in billions of lire and percentage changes)

	Banks				Special credit institutions			
	Stocks at end:		Percentage changes in the 12 months to:		Stocks at end:		Percentage changes in the 12 months to:	
	Dec. 90	June 91	Dec. 90	June 91	Dec. 90	June 91	Dec. 90	June 91
Insurance companies	428	685	47.6	274.3	585	578	451.9	483.8
Financial companies	81,416	80,659	29.0	30.4	45,549	47,441	17.4	11.9
holding companies	*16,331*	*22,225*	*24.9*	*59.3*	*8,478*	*9,879*	*34.1*	*28.7*
state holding companies	*15,448*	*11,512*	*56.8*	*33.4*	*10,629*	*12,409*	*7.8*	*25.3*
leasing	*13,554*	*13,954*	*22.3*	*13.1*	*12,987*	*13,065*	*18.8*	*12.2*
factoring	*16,803*	*12,595*	*26.3*	*11.5*	*3,813*	*3,613*	*52.4*	*23.7*
consumer credit	*4,751*	*5,341*	*25.5*	*34.7*	*3,718*	*3,837*	*25.5*	*7.8*
Non-financial companies	271,349	285,440	15.2	14.5	144,311	149,739	14.4	12.2
manufacturing	*129,752*	*136,183*	*11.5*	*10.2*	*55,218*	*55,876*	*9.7*	*8.2*
Branches of industry classified by average loan size:								
up to 1 billion lire	*124,045*	*134,273*	*22.7*	*21.1*	*50,651*	*54,248*	*16.4*	*18.1*
from 1 to 2 billion lire	*91,551*	*97,002*	*14.0*	*12.6*	*39,613*	*40,295*	*10.9*	*8.8*
more than 2 billion lire	*55,753*	*54,165*	*3.2*	*3.7*	*54,047*	*55,196*	*15.1*	*9.5*
Households	91,788	101,796	18.6	17.8	28,815	31,663	23.3	23.6
consumer households	*19,773*	*23,205*	*30.0*	*32.5*	*11,668*	*13,362*	*34.0*	*34.3*

Source: Central Credit Register.
(1) Not including debtor positions smaller than 80 million lire.

Similarly, after growing to 6.2 trillion in April, the stock of Eurolira CDs fell to 5.3 trillion in June; issues subsequently revived, taking the total to 6.6 trillion at the end of August.

The smaller growth in deposits compared with loans led to a further reduction in banks' securities portfolios, which fell from 31.5 to 27.6 per cent of their total lira lending in the twelve months to September. The further growth in loans as a percentage of assets improved banks' profitability by increasing the average yield on assets. The estimated 9 per cent rise in net interest income between the first half of 1990 and the first half of this year boosted gross income by around 8 per cent despite the less favourable outcome for income from services. This improvement, however, was entirely offset by the 14 per cent increase in staff costs.

On 15 October the reform of the system of compulsory reserves that had been initiated a year earlier was completed with the mobilization ceiling being raised to 5 per cent. The results of the new system's first year of operation were positive:

integration was achieved with the new screen-based interbank deposit market, which grew both in turnover and in the range of instruments traded, very-short-term interest rates stabilized, and the excess reserves held by banks fell appreciably. In the year ended 14 October the excess reserves held at the Bank of Italy, bearing interest at 0.5 per cent, averaged 140 billion lire; in the previous year free deposits on advance accounts with the central bank had averaged more than 700 billion. The commission charged every four months for ordinary advance credit lines, which was raised from 0.15 to 0.3 per cent as a deterrent to this form of liquidity after reserve mobilization, led banks to reduce their credit lines from 3.2 to 2.1 trillion.

The general slowdown in credit also involved the special credit institutions; the growth in their lending slowed from 16.3 per cent in 1990 to 14.6 per cent in the first nine months of this year. The breakdown of lending by type of institution and borrower shows that the slowdown was cyclical, since it came mainly in industrial credit, while real estate credit and lending for public works accelerated. Since the rate of growth in total fund-raising remained unchanged, special credit institutions were able to increase their net purchases of government securities, which rose from 1.1 trillion lire in January-August 1990 to 4.6 trillion this year.

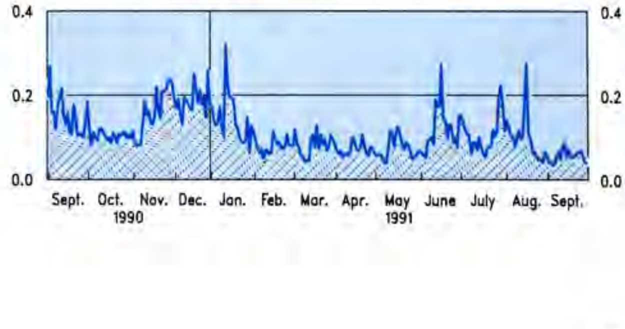
On the liabilities side, market sentiment was generally favourable to longer maturities and this enabled the special credit institutions to issue more bonds: in the first eight months net issues totaled 7.7 trillion lire and represented 28 per cent of the special credit institutions' fund-raising, compared with 2.6 trillion and 11.9 per cent in the year-earlier period. Net issues of CDs fell from 8.7 trillion lire in the first eight months of 1990 to 4.4 trillion. This reflected recourse to other sources of fund-raising by the leading industrial credit institutions and the smaller-than-average increase in issues by several categories of intermediary, including limited companies and special credit sections, that traditionally raise most of their funds through CDs. The limited right granted to special credit institutions to repurchase their own CDs may encourage this form of funding in the future. Especially in the early months of the year, the wide differential between the cost of funds at home and on the Euromarkets led to substantial fund-raising abroad by industrial credit institutions.

The financial market

From January to May the government securities market benefited from the easing of exchange rate pressures. The prices of medium and long-term fixed rate securities rose by around 4.6 percentage points and those of floating rate paper by around 2.7 points (Figure 22). This tendency was reversed over the summer by the uncertain outlook for the public finances and developments in the money and foreign exchange markets following the emergence in July of expectations of higher interest rates in Germany. After the increase in official German rates in the middle of August, the market was strengthened by the drop in inflation, the initial repayments of withholding tax to foreign investors and the start of trading in Paris and London in derivatives based on Italian government securities (see the insert on *Foreign futures contracts on Italian Treasury bonds*).

Figure 22

Screen-based market: ex coupon price indices and average bid-offer spread
(1 September 1990=100; percentages)



Foreign futures contracts on Italian Treasury bonds

In September trading in Italian bond futures started on the Matif (Marché à Terme International de France) in Paris and on Liffe (London International Financial Futures Exchange) in London. The contracts on Italian Treasury bonds are described in the Table below. In the middle of October both Liffe and the Matif launched options on their futures contracts. Trading in government bond futures in Italy is planned to start in the first half of 1992 following the issue of a decree by the Minister of the Treasury. In contrast with Liffe and the Matif, which are open-outcry markets, trading on the Italian market will be screen-based, in line with other recently established markets (Brussels, Frankfurt and Zurich). The Consob and the Bank of Italy are defining the organization and functions of a clearing and guarantee system that will act as the market's clearing house.

The economic function of futures markets is to permit operators to hedge their portfolios against the risk of changes in interest rates and to make temporary investments. For instance, an investor wishing to protect his holdings of Treasury bonds against a future fall in prices can dispose of his securities forward by selling futures contracts (each contract involves the sale of Treasury bonds worth 100 million lire on the Matif and 200 million on Liffe); the futures price agreed, the consideration to be received in exchange for the delivery of the securities in the future, guarantees their value at the maturity date of the contracts.

An unregulated market in forward contracts on Treasury credit certificates, bonds and option certificates already exists in Italy. Trading in this market is based on

Features of the futures contracts on Italian Treasury bonds

	Matif	Liffe
Face value of contracts (1)	Lit. 100,000,000	Lit. 200,000,000
Notional gross coupon rate	10%	12%
Price	per 100 lire of face value	per 100 lire of face value
Minimum price change	Lit. 0.01 per 100 lire of face value (Lit. 10,000 per contract)	Lit. 0.01 per 100 lire of face value (Lit. 20,000 per contract)
Initial margin	Lit. 1,500,000 per contract	Lit. 2,000,000 per contract
Eligible securities	Italian Treasury bonds with a residual maturity at the delivery date of between 6 and 10 years and a float of at least 2 trillion lire	Italian Treasury bonds with a residual maturity at the delivery date of between 8 and 10.5 years and a float of at least 4 trillion lire
Delivery months	March, June, September, December	March, June, September, December
Last trading day	fifth business day prior to the delivery day	fourth business day prior to the delivery day
Delivery day	first business day of the month following the delivery month	tenth day of the delivery month or, if not a business day, the next day
Start of trading	5 September 1991	19 September 1991

(1) The consideration the seller has to pay the buyer for the delivery of securities is calculated as follows:

$$V_j=F.C_j.N+D_j.N$$

where V_j is the contractual consideration, F is the futures settlement price for the delivery date, C_j is the conversion factor applicable to the j-th security the seller has chosen to deliver, N is the face value of the futures contract divided by 100, and D_j is the net accrued interest on the securities at the delivery date.

bilateral agreements between investors and dealers, who publicize the terms of their contracts, including types of security, delivery dates and bid-offer prices. The difference between this market and futures markets lies in the standardization of contracts and their maturities and in the existence of a clearing house that runs the system of daily margin requirements, thereby eliminating the risk associated with counterparty failure and ensuring good settlement and delivery.

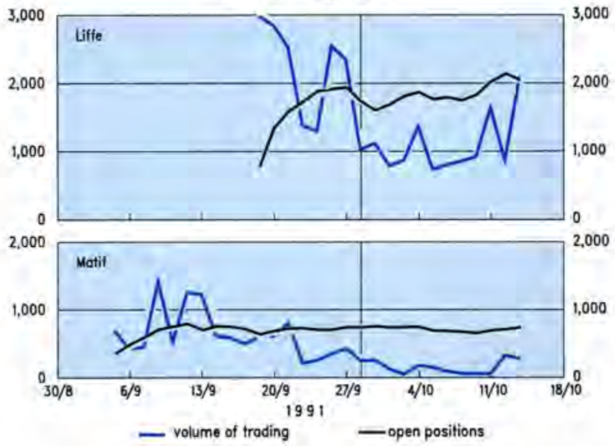
The Matif and Liffe are supervised by their respective national authorities. Membership is divided between operators that deal directly with the clearing house, who are subject to more stringent capital requirements, and those that must deal through them. The delivery dates for Matif and Liffe contracts are March, June, September and December of each year. It is established international practice that on any given day contracts can be traded for the next four delivery dates. In practice nearly all contracts refer to the next delivery date and are often rolled over before delivery.

Sellers may deliver the Treasury bonds they have sold by choosing among a basket of issues with predetermined features. Specifically, Matif contracts provide for the delivery of bonds having a residual maturity of between six and ten years at the delivery date, while Liffe contracts call for delivery of securities with a residual maturity of between eight years and ten years and six months. With the aim of avoiding price instability close to the delivery date, to be eligible for delivery the outstanding value of the securities in circulation must not be less than 2 trillion lire for the Matif and 4 trillion for Liffe.

Futures prices are quoted with reference to a "notional" security that does not actually exist but which serves as a benchmark for the forward delivery of the securities in the basket. For the Matif and Liffe futures contracts, the notional security is a bond with a gross coupon of respectively 10 and 12 per cent.

Trading volumes on the Matif and Liffe markets were substantial when they first opened, averaging respectively 650 and 2,150 billion lire in September. Turnover subsequently declined in the first half of October to a daily average of 180 billion on the Matif and 1,120 billion on Liffe. Since some operators may close positions on the same day or just a few days later, a more accurate measure of trading volume is obtained by excluding short-term operations and considering only open positions, i.e. those that operators have not closed by taking positions of the opposite sign. On 15 October the open positions for delivery in December comprised 7,400 Matif contracts with a value of 740 billion lire and 10,700 Liffe contracts with a value of 2,140 billion (see the Figure below). On the same day the open positions in the two markets on French and UK long-term government securities contracts for delivery in December were respectively worth around 12,500 and 5,700 billion lire.

Italian Treasury bond futures on the Matif and Liffe: daily turnover and open positions
(billions of lire)



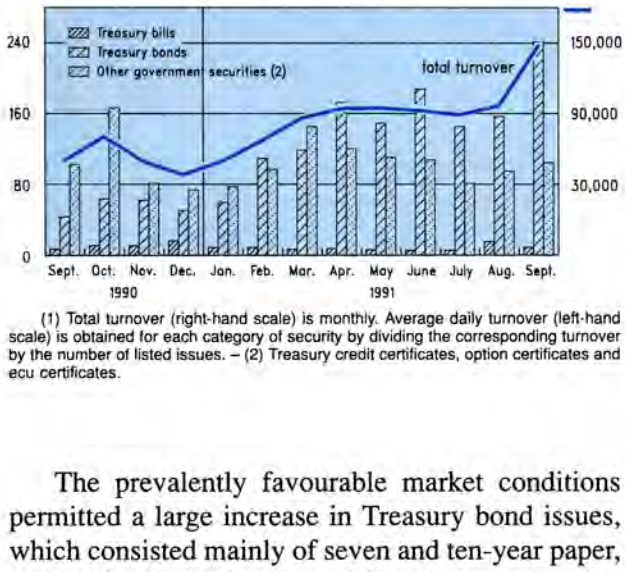
In September arbitrage trading in connection with the opening of the two futures markets led to a substantial increase in turnover on the screen-based spot market. The share of total turnover on the cash market accounted for by the ten-year Treasury bonds traded on the futures market increased from 29 per cent in August to 43 per cent. The yields on bonds with ten-year maturities fell more than those on other bonds over this period, thereby reducing the Treasury's long-term borrowing costs.

The screen-based market in government securities deepened further as monthly turnover rose nearly fourfold, from 38 trillion lire in December 1990 to 148.4 trillion in September (Figure 23). Treasury bonds accounted for most of the increase since the volume of trading in these instruments rose from 13.7 to 100.4 trillion; ten-year paper was especially popular, with average daily turnover in the three issues that were listed in the third quarter amounting to 1.86 trillion lire or about 36 per cent of the market total.

Figure 23

Screen-based market: total turnover and average daily turnover per issue (1)

(billions of i lire)



(1) Total turnover (right-hand scale) is monthly. Average daily turnover (left-hand scale) is obtained for each category of security by dividing the corresponding turnover by the number of listed issues. – (2) Treasury credit certificates, option certificates and ecu certificates.

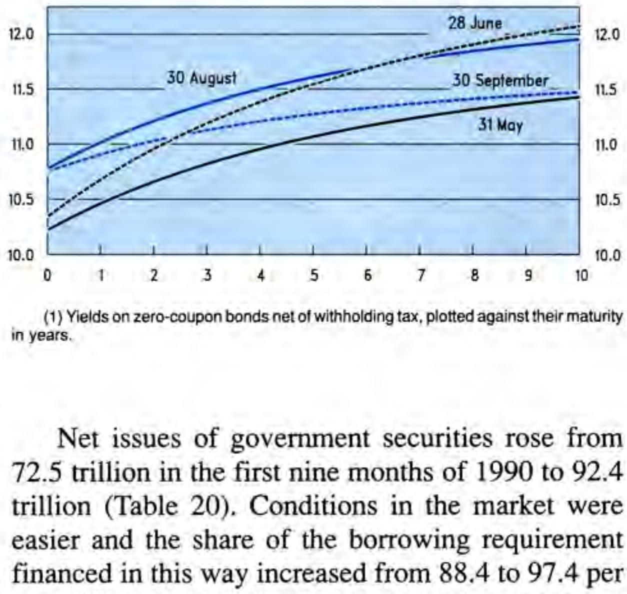
The prevalently favourable market conditions permitted a large increase in Treasury bond issues, which consisted mainly of seven and ten-year paper, and a reduction in the share of short-term and floating rate paper. Net issues of Treasury bonds totaled 64.7 trillion in the first nine months, as against net redemptions of 12.9 trillion in the year-earlier period; by contrast, net issues of Treasury credit certificates dropped from 42.6 trillion to only 4.1 trillion and those of Treasury bills fell by more than two thirds to 8.9 trillion. As a result of these changes the average residual maturity of the public debt lengthened from 2 years and 5 months last December to 2 years and 8 months in September.

Share prices rose to a peak 20 per cent above their end-1990 level but started to fall in June and continued to weaken, so that at the end of September the gain was only 3.8 per cent (Figure 25). The fall in prices on the Milan Stock Exchange between June and September actually exceeded that on the Tokyo exchange, which was depressed by the disclosure of serious irregularities on the part of several leading Japanese securities houses. By contrast, interest rate cuts and signs of economic recovery led to share prices rising in the United States and the United Kingdom. In the same period the "volatility" of yields was 18.4 per cent in Milan, compared with 14.2 per cent in New York and 11.6 per cent in London.

Conditions in the securities market were reflected in the yield curve (Figure 24). From January to May yields fell across the board. In June the curve steepened in response to the factors of uncertainty discussed above. The more restrictive stance of monetary policy and expectations of exchange rate stability subsequently caused the curve to flatten.

Figure 24

Time/yield curves (1)



(1) Yields on zero-coupon bonds net of withholding tax, plotted against their maturity in years.

Net issues of government securities rose from 72.5 trillion in the first nine months of 1990 to 92.4 trillion (Table 20). Conditions in the market were easier and the share of the borrowing requirement financed in this way increased from 88.4 to 97.4 per cent. Since floor prices were generally exceeded, auction mechanisms contributed to this result by permitting the fluctuations in the secondary market to be transmitted to auction yields rather than to the quantity of demand for new issues. The ratio of demand to supply in Treasury bond auctions rose from 1.4 in the first nine months of 1990 to 1.9. The Bank of Italy accordingly refrained from buying medium and long-term paper at most auctions, leading to a net reduction in its portfolio of 11.7

Table 20

Government securities
(billions of lire)

	Bills (1)	Ecu bills	Credit certificates	Bonds	Option certificates	Ecu credit certificates	Other	Total
				Gross issues				
1987	316,110	2,311	55,480	19,020	–	2,231	10,605	405,757
1988	409,411	7,289	27,350	75,383	594	11,167	697	531,891
1989	498,553	11,313	21,300	41,100	15,620	9,025	634	597,545
1990	559,196	6,109	75,538	74,460	27,161	8,017	4,582	755,063
1990 Jan.-Sept.	412,949	3,017	52,038	56,394	16,661	5,694	–	546,753
1991 Jan.-Sept.	449,592	3,458	71,000	68,000	18,000	2,602	–	612,652
				Net issues				
1987	25,171	2,311	35,267	13,538	–	2,231	6,674	85,192
1988	36,275	5,738	–7,848	59,781	564	11,167	–1,032	104,645
1989	39,778	3,264	20,916	27,006	15,336	7,434	–2,968	110,766
1990	44,641	–4,072	54,214	–13,347	26,678	7,262	–114	115,262
1990 Jan.-Sept.	29,643	–4,251	42,580	–12,912	16,376	5,712	–4,697	72,451
1991 Jan.-Sept.	8,948	–692	4,066	64,659	17,910	675	–3,145	92,421

(1) Issue discounts are not accounted for in net issues.

trillion as a result of redemptions. On the other hand, the central bank made net outright purchases amounting to 6.8 trillion in the open market between January and September, compared with net sales of 7.8 trillion in the same period in 1990.

The recent fall in Italian share prices reflected the deterioration in macroeconomic conditions and the aggravation of the operational problems besetting the Milan Stock Exchange. The outlook for profit was also clouded by the possibility of companies being required to revalue their real estate assets. This has had a particularly strong effect on firms with extensive holdings of property; for example, the decline in insurance companies' shares was nearly one and a half times that in the general share price index in the four months from June to September. The introduction of a capital gains tax in March and recurring difficulties at the monthly settlements may have contributed to the market's doldrums. Average daily turnover fell to 114 billion lire in June-September this year, compared with 227 billion in the same period in 1990. By contrast, trading in Italian shares on London's SEAQ International market continued to grow, both absolutely and in relation to turnover of the same shares on the Milan Stock Exchange.

Figure 25

Securities market: indices of capitalization
(31 December 1988=100)

4

The poor performance of share prices discouraged gross issues of listed shares, which fell from 6.1 trillion in June-September 1990 to 1.4 trillion. Gross issues of listed shares in the first three quarters fell to a three-year low of 1.8 trillion, compared with 9.8 trillion in 1990.

Net fund-raising by Italian investment funds amounted to 4.4 trillion lire in the first nine months, compared with net redemptions of 0.2 trillion in the corresponding period in 1990. Bond-based funds raised 7 trillion, thanks in part to the spread of products linked with bank current accounts; the number of funds offering this type of service grew from 12 to 21 during the summer and is still increasing. Share-based and mixed funds recorded net redemptions beginning in April, in advance of the summer slump in share prices. Fund managers made net disposals of shares as investors redeemed fund units. In the first nine months of the year the average net yield of bond-based funds was 9 per cent, compared with 9.8 per cent on Treasury credit certificates.

Short-term prospects

The international economy

The cyclical downturn in the industrial countries, under way since the end of 1989, should bottom out this year. When the contractionary phase started, it was expected to be short and mild. The political and military crisis in the Gulf first accentuated its intensity and then extended its duration by undermining the confidence of consumers and investors in the likelihood of a rapid improvement in the outlook for income growth.

Last spring, with the end of the war and the almost complete unwinding of the effects of the crisis on oil prices, the leading international organizations predicted that a strong recovery might get under way as early as the summer, leading to rates of growth in GDP and world trade nearly as high as those of two years ago just before the cyclical downturn.

The echoes of the war have died away, but there is now considerable caution in renewing those forecasts. Doubts are growing about the imminence and strength of the recovery in output in the industrial countries as a whole. These doubts are coupled with concern about the outlook, at least in the short run, for the economies of Central and Eastern Europe and the Soviet Union. Fears of economic collapse are fueled by the rapidity with which vital parts of the existing productive and distributive systems are breaking down and the slowness with which the new market structures are being created. However, the prospects for the Soviet Union and the countries of Eastern Europe are tending to diverge. According to the latest IMF forecasts, which embody a sharp downward revision compared with those published in May and are highly uncertain, the decline in output is likely to continue in the Soviet Union, while a moderate recovery should get under way in the countries that have made the most progress in carrying out reforms.

The task façing economic policy in the industrial countries has become more demanding: in the short term it must foster a non-inflationary end to the recession; in the medium term it must ensure an adequate flow of savings to meet the needs arising both from their own growth and from that of the countries that are transforming their economies and the rest of the developing world.

The IMF now forecasts that the GDP of the industrial countries will grow by 1.3 per cent this year, as against 2.5 per cent in 1990 (Table 21). Specifically, GDP in the United States, the United Kingdom and Canada is expected to decline; in Germany and Japan it should expand by 3-4 per cent, which would nonetheless be about one and a half percentage points less than the exceptional rate recorded in 1990; in the other countries GDP is expected to grow, but only very moderately and much less than last year.

With demand and international commodity prices both weak, average inflation in the industrial countries is forecast to fall from 4.9 per cent in 1990 to 4.6 per cent this year. In Germany and Japan, where the economic cycle is still in the expansionary phase, the rate of increase in consumer prices is expected to accelerate to 3.5 per cent, which is still below the average for all the industrial countries.

As regards the imbalances in the external accounts of the main trading areas and countries, the IMF indicates that there will be large but mostly temporary changes this year. The US current account deficit is expected to disappear almost completely (falling from 1.6 to 0.3 per cent of GDP), partly owing to the $45 billion of transfer payments made by the countries contributing to the cost of the Gulf war. However, the deficit is expected to reappear next year as domestic demand rises. The Gulf war will have a temporary adverse effect on the oil-producing countries' balance of payments. The German current

Table 21

Forecasts of the main international macroeconomic variables
(percentage changes on previous year)

	1990	1991 (1)	1992 (1)		1990	1991 (1)	1992 (1)
GDP (2)				**Current balances** (4)			
Industrial countries	2.5	1.3	2.9	Industrial countries	–96.6	–37.6	–97.8
United States	*1.0*	*–0.2*	*3.0*	*United States*	*–92.1*	*–17.6*	*–92.0*
Japan	*5.6*	*4.2*	*3.8*	*Japan*	*35.8*	*55.8*	*58.4*
EEC	*2.8*	*1.4*	*2.3*	*EEC*	*–4.9*	*–44.3*	*–33.5*
Germany	*4.5*	*3.0*	*2.0*	*Germany* (5)	*47.1*	*–5.5*	*10.9*
LDCs	1.1	–0.4	2.9	LDCs	–27.4	–103.5	–66.9
Consumer prices (3)				**Unemployment rate** (6)			
Industrial countries	4.9	4.6	3.8	Industrial countries	6.2	7.0	7.0
United States	*5.4*	*4.6*	*4.0*	*United States*	*5.5*	*6.8*	*6.3*
Japan	*3.1*	*3.5*	*2.8*	*Japan*	*2.1*	*2.1*	*2.2*
EEC	*5.2*	*4.8*	*4.3*	*EEC*	*8.7*	*9.2*	*9.4*
Germany	*2.7*	*3.5*	*3.5*	*Germany*	*6.2*	*5.7*	*5.9*
GDP deflator				**Exports** (2)			
Industrial countries	3.9	4.1	3.7	Industrial countries	5.9	2.5	4.6
United States	*3.8*	*4.2*	*3.8*				
Japan	*1.9*	*2.4*	*2.6*	**Imports** (2)			
EEC	*5.0*	*4.9*	*4.3*	Industrial countries	*5.3*	*2.1*	*4.5*
Germany	*3.4*	*3.9*	*3.7*	LDCs	*3.0*	*–2.1*	*5.8*

Source: OECD.
(1) Based on an assumed average oil price of $17.8 per barrel in 1991 and of $18.2 in 1992. – (2) At constant prices. – (3) Private consumption deflator. – (4) Billions of dollars. – (5) From July 1990 onwards includes the transactions of the former German Democratic Republic. – (6) Level.

account surplus appears to have been annulled permanently after the Federal Republic had recorded surpluses of between 4 and 5 per cent of GDP in the second half of the eighties; the payment of $8 billion to the United States to help pay for the Gulf war is likely to result in Germany actually recording a deficit this year. The Japanese surplus, which had been declining since 1987, is expected to rise to 1.7 per cent of GDP, notwithstanding $9 billion of unilateral transfers to the United States.

These estimates are affected by large statistical discrepancies that are growing in the aggregate. Furthermore, the assumption on which all the macroeconomic projections for the year are based is that the average price of oil in 1991 will be equal to just under $18 per barrel, the value recorded in June. However, the price rose by more than two dollars during the summer as a result of expectations of a recovery in world demand in the last part of the year, uncertainty as to when supplies from the countries involved in the war would become available and fears about the regularity of energy exports from the Soviet Union, which account for about 9 per cent of the world total.

Uncertainty as to whether the evidence of economic activity picking up in the countries in recession implies the start of a lasting recovery has led to monetary policy in these countries being used to foster a cyclical upturn. The US authorities encouraged a further fall in interest rates in the late summer; in September the discount rate was lowered by half a point. Long-term rates came down as expectations of a slowdown in inflation strengthened, but they remain high in real terms. UK rates have fallen substantially across the board, but the slowness of the recovery and the fall in inflation are likely to give rise to expectations of a further fall in short-term rates.

There is widespread awareness of the desirability of bringing interest rates down from the historically high levels inherited from the eighties, but it is proving hard to translate this into concerted action spearheaded by the countries which have the lowest inflation and where economic activity appears to be bogged down. Sweden, France and Denmark cut their official rates in October.

Monetary policy continues to be more restrictive in Japan and above all in Germany. The tightness of monetary conditions in Japan is being mitigated by concern about the slowdown in output. In Germany the monetary authorities are seeking to counter inflationary pressures that could develop beyond the short term as a result of the growing budget deficit and the expansion in both credit and liquidity. The mid-August change in official rates consisted of a rise of a quarter of a point in the Lombard rate, the main reference rate for the market, which had already discounted the increase. Since then German short-term rates have come down slightly.

The stance of monetary policy in each country can be adjusted in the light of inflation developments. By contrast, fiscal policy cannot be diverted from the task of reducing budget deficits wherever these are absorbing massive quantities of private savings, which are in increasingly scarce supply. The United States and Germany have announced rigorous medium-term adjustment programmes. The latest US Administration estimates indicate that the federal deficit will rise to around \$350 billion or 6 per cent of GDP in the 1992 fiscal year, primarily owing to additional expenditure to rehabilitate the savings and loans movement, expenditure that will not serve to stimulate the economy. The adjustment programme enacted in last year's budget envisages a combined revenue and expenditure correction of nearly \$500 billion over five years, leading to a rapid fall in the deficit. Germany is expected to maintain the drive to offset the additional expenditure due to the country's unification with the aim of reducing the public sector deficit to 3 per cent of GDP by 1994. It is officially estimated that the deficit will fall from 5.6 per cent of GDP this year to 4.3 per cent in 1992. The budget surplus in Japan is expected to remain at around 3 per cent of GDP, almost entirely owing to the surplus of the social security system.

The IMF's forecasts for 1992 indicate that the growth of GDP in the industrial countries will accelerate to 2.9 per cent and that of world trade to 4.8 per cent, which is one and a half points less than both the IMF and the OECD had forecast in the spring in the optimistic climate engendered by the end of the Gulf war. The differentials between the growth rates of the leading countries are expected to narrow following the slowdown in Japan and Germany. This would cause current account imbalances to start increasing again. Inflation is expected to slow down in all the industrial countries except Germany, where it should remain unchanged at 3.5 per cent.

The developing countries should see their growth rate accelerate to 2.9 per cent, with much higher rates in the Middle East (11 per cent) and Asia (5 per cent). Inflation is expected to slow down sharply in all the developing regions, including Latin America, and should fall to the lowest level for ten years. The ratio of foreign debt to exports is likely to fall everywhere except for the Middle East, where it will be sustained by spending on reconstruction. The actual pattern will be influenced by the development of the cycle in the industrial countries, the pressure of total demand on world interest rates and the outcome of the GATT Uruguay Round.

The Italian economy

The Italian economy achieved only mediocre results in the year that is drawing to a close. Progress has been limited as regards the public finances and inflation – the fields in which the imbalances are most pronounced and deep-seated, and which therefore necessitate a decisive change of course. Economic activity has stagnated, in Italy no less than in the industrial countries as a whole. The unemployment rate has declined a little only because the demand for labour increased in the services sector, which is less affected by cyclical conditions. Despite the weakness of domestic demand and an improvement in the terms of trade, the current account of the balance of payments has continued to show no sign of a narrowing of what is becoming a substantial structural deficit.

The public finances are discussed in detail in a separate chapter. The Government's revised target for this year's state sector borrowing requirement is 141 trillion lire. Despite the numerous measures introduced in three stages to hold down the budget deficit, the borrowing requirement is likely to exceed this by 9 trillion lire. And even this result depends on the implementation of measures that are still the subject of technical and political discussions: the sale of additional state assets (3.5 trillion) and changes in the November instalments of personal income tax and local income tax (3.65 trillion).

Inflation, which had been on a rising trend since the middle of 1990, started to slow down during the summer, benefiting at last from the weakening of international commodity prices and the stability of the lira within the EMS. However, the rate is not falling fast enough to bring a rapid narrowing of the differential vis-à-vis the other currencies participating in the Exchange Rate Mechanism. Even if the twelve-month increase in the cost-of-living index fell below 6 per cent at the end of the year, the differential would not narrow. In September it was still close to 3 percentage points: an increase in the cost of living of more than 6 per cent was matched by consumer price inflation of respectively 2.6, 3.9 and 4.1 per cent in France, Germany and the United Kingdom, with an evident downward trend in all three countries. Unit labour costs in Italian manufacturing industry will increase by over 7 per cent this year, more than double the average rate forecast for the industrial countries. Persistence of this differential will cause a progressive deterioration in Italian firms' competitiveness.

According to the preliminary outturn for the year published in the Government's latest Forecasting and Planning Report, GDP will grow by 1.4 per cent in 1991 (Table 22). This is a major downward revision compared with the 2.7 per cent projected a year ago and a slowdown in comparison with the 2 per cent growth recorded in 1990. However, the actual result for the year could be even closer to 1 per cent in view of the continuing decline in value added that emerges from the latest estimates of industrial production and the slower growth of market services, which is not sufficient to compensate for the cyclical downturn in industry.

Table 22

Selected Italian macroeconomic variables

	1990	1991 (1)	1992 (1)
	(percentage changes)		
Real variables			
GDP	2.0	1.4	2.5
Domestic demand	2.5	1.6	2.6
Imports (2)	6.7	3.5	5.8
Exports (2)	7.5	2.8	6.0
Prices			
GDP deflator	7.5	6.8	4.7
Private consumption deflator	6.2	6.2	4.5
Terms of trade (2)	–0.1	2.5	–0.5
	(percentages)		
Financial balances/GDP			
State sector borrowing requirement (net of settlements of pasts debts)	10.8	10.0	8.4
External current account balance	–1.3	–1.2	–1.0

(1) *Relazione previsionale e programmatica per il 1992.* – (2) National accounts data.

The slowdown in the growth of demand is estimated to have been especially pronounced for exports, with the annual rate falling from 7.5 per cent in 1990 to 2.8 per cent, even on the assumption that, after stagnating in the first half of the year, world demand and exports will rise by 4.5 per cent compared with the second half of 1990. Among the domestic components of demand, spending on investment will return the worst performance, with no increase on last year.

The slowdown in economic activity has not had a uniform effect on the demand for credit. The reduction caused by stagnant fixed investment has been accompanied by an increase due to the lower rate of self-financing and the above-normal level of stocks of finished products. The expansion in total credit to the non-state sector showed only a marginal decline: for the year as a whole the increase is expected to be 15 per cent, only two percentage points less than in 1990. The rate of increase of domestic borrowing is forecast to remain below that of foreign borrowing. On the assumption that the state sector borrowing requirement amounts to 141 trillion lire, total domestic credit will expand by about 12.5 per cent, or just over half a point less than in 1990 (Table 23). The expansion of total credit, which includes the foreign funding of the whole economy, will show a more pronounced slowdown, falling from 14.6 per cent to just over 12 per cent. The growth in M2 is expected to be within the target range of 5-8 per cent.

The Government's Forecasting and Planning Report for 1992 not only assumes a strong recovery in world demand but also explicitly incorporates significant normative assumptions, insofar as it discounts the effects the budget and incomes policy measures contained in the Finance Bill will have on the economy by engendering a rapid improvement in expectations. The estimate of the state sector borrowing requirement on a current programmes basis contained in the Finance Bill (189.3 trillion lire excluding sales of state assets) is also based on the same set of assumptions.

Table 23

Financial flows

(trillions of lire and percentages)

	Gross domestic product		State sector borrowing requirement (1)		Domestic credit to the non-state sector (B)		Total domestic credit (A) + (B)			Non-state sector domestic financial assets (2)				Money (M2)		
	amount	change	total	domestic (A)	amount	change	amount	change	ratio to GDP (3)	amount	change	ratio to GDP (3)	ratio to GDP (4)	amount	change	ratio to GDP (4)
1982 (4) ..	545.1	17.5	71,0	69.1	31.7	13.1	100.8	20.8	18.5	89.7	19.0	17.2	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	18.8	102.6	48.9	12.3	70.6
1984 (5) ..	725.8	14.6	95,7	91.7	49.4	15.6	141.2	19.7	19.4	128.9	19.8	18.7	107.4	55.0	12.3	69.2
1985	810.6	11.7	110,1	107.3	46.2	12.6	153.4	17.8	18.9	134.7	17.3	17.4	113.0	56.0	11.1	68.9
1986	899.9	11.0	109,4	106.7	46.0	11.3	152.7	15.1	17.0	151.4	16.5	18.2	118.9	53.6	9.6	68.0
1987	983.8	9.3	114,0	105.9	46.1	10.2	152.0	13.0	15.4	155.9	14.6	16.5	124.8	52.6	8.6	67.6
1988	1,091.8	11.0	125,2	119.0	78.2	15.7	197.2	15.0	18.1	182.6	14.9	16.7	129.3	58.9	8.9	66.3
1989 (6) ..	1,192.7	9.2	132,2	122.7	106.9	18.5	229.6	15.2	19.2	196.2	13.9	17.1	134.9	81.8	9.5	67.5
1990 (6) (7)	1,306.8	9.6	140,4	124.4	105.5	15.4	229.9	13.2	17.6	191.6	11.9	15.3	138.2	79.6	9.9	67.7
1991 (7) (8)	1,415.1	8.3	141,0	132.0	114.7	14.6	246.7	12.5	17.4	201.0	11.5	14.7	141.8	62.0	7.0	66.9

Source: For GDP, Istat and *Relazione previsionale e programmatica.*

(1) Excludes settlements of past debts in securities; settlements in cash are included only in the domestic borrowing requirement. – (2) Excludes shares. – (3) End-of-period stocks. – (4) Net of the effects of the non-interest-bearing deposit on external payments. – (5) 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. – (6) The rates of growth in the money supply have been corrected for the effects of strikes in the banking sector in December 1989. – (7) The rates of growth in the money supply have been calculated on the basis of average monthly data, net of banks' customer repos. – (8) Estimates.

The budget for 1992

According to official estimates, the budget proposals for 1992 should reduce the 189.3 trillion state sector borrowing requirement on a current programmes basis by around 61.5 trillion lire. (The Government's Forecasting and Planning Report assumes 6 trillion of privatization proceeds and accordingly estimates the requirement to amount to 183.3 trillion and the reduction to 55 trillion.) The slightly larger reduction in the public sector borrowing requirement (61.8 trillion) is expected to come from revenue increases and expenditure savings of 39.8 and 22 trillion lire respectively. Taxes should produce some 21 trillion of the additional revenue, social security contributions 3.7 trillion and privatizations 15 trillion (including the 6 trillion contained in the official estimate of the borrowing requirement on a current programmes basis). More than half the projected rise in tax revenue is to come from a tax condonation scheme. On the expenditure side, the savings comprise 7.2 trillion of wages, salaries and pensions, 5.35 trillion of transfer payments, 4 trillion of health service outlays, 1.25 trillion of other items and 4.2 trillion of lower interest payments as a result of the reduction in the borrowing requirement itself.

Tax credits totaling 7.5 trillion lire are to be consolidated through the issue of securities. This amount is not included in the target borrowing requirement, which is net of settlements of past debts.

Revenue

Taxes. *– The Finance Bill provides for taxpayers who have not been notified of an assessment to regularize their positions over the past five years with respect to direct taxes (personal income tax, corporate income tax and local income tax) and indirect taxes (VAT, registry fees, inheritance and gift tax, property registration tax and tax on imputed property income). The scheme requires a supplementary return to be filed before the end of March 1992 for all the relevant tax years and lays down minimum amounts to be paid. Persons who are not subject to assessment proceedings – excluding those that did not originally file a return, who are required to submit an itemized return covering all their income – can automatically settle their liability by making the following payments: for direct taxes, 25 per cent (30 per cent in some cases) of the gross tax liability they report; for VAT, 3 per cent of the value of taxable transactions, increased by 3 per cent of the deductible tax; for other taxes, the liability calculated on the larger taxable amount declared, increased by 25 per cent. Taxpayers who have been notified of assessments will also be allowed to terminate the proceedings by way of a condonation.*

The provisions concerning the revaluation of company assets contained in last year's budget are made compulsory for buildings (including those taxpayers use for their business activities) and building land. The revaluation is calculated by deducting an allowance of 1 billion lire from the difference between the total value of these assets, obtained by applying the new property rates in the case of buildings and considering 80 per cent of the market value of building land, and that stated in the balance sheet. Businesses are required to pay a flat-rate 16 per cent tax in lieu of income tax on 42 per cent of the resulting amount. This can be paid in three instalments – 68 per cent in two equal instalments in 1992 and the remainder in 1993 – and existing tax credits can be offset up to 25 of the amount due. The revaluation is recognized for depreciation purposes in the financial year following that in which it is effected; in the event of disposals during the three years following revaluation, realized capital gains will be determined on the basis of the value of the assets prior to the revaluation.

The exemption of unrealized capital gains arising in connection with capital contributions under Law 218/1990 concerning the restructuring and replenishment of the capital of public law banks (the "Amato Law") is to be reduced from 100 to 85 per cent.

Other provisions are designed to broaden the tax base, in part by reducing banking secrecy, rationalize the tax system, simplify the collection of taxes and ensure greater transparency in dealings between taxpayers and the tax authorities.

Decree Law 307/1991 raises the withholding tax on interest and other income from tied bank deposits with maturities up to one year and comparable CDs from 25 to 30 per cent. The instalments of withholding tax that banks are required to pay in June and October are raised from 45 to 50 of the liability for the previous year, with effect from 1992. The rules preventing taxpayers from taking account of the income they expect to earn this year in determining their November instalments of self-assessed personal income tax are likely to increase the borrowing requirement in 1992, since the resulting increase in receipts will lead to smaller self-assessed balances and more tax credits in 1992.

Social security contributions. *– The contribution rate for employees and the self-employed will be raised by 0.9 points, the relief in respect of employers' social security contributions for firms located in the South will be reduced, and contributions due to INAIL's agricultural fund from the self-employed and owners of land farmed by sharecropping will be raised. The last of these measures affects the public sector borrowing requirement but not that of the state sector. A reduction in employers' health service contributions will be enacted in separate legislation (the allocation is already included in the Finance Bill).*

Disposals. *– Decree Law 309/1991 permits state holding companies, other public economic entities and the autonomous government agencies to be transformed into limited companies in preparation for partial privatization.*

Expenditure

Wages and salaries. *– The Finance Bill provides for the growth in public employees' earnings resulting from wage agreements and automatic increases to be capped at the target rate of inflation. In addition, the application of the sentences of the Constitutional Court concerning pay increases for the Armed Forces and the Police and equalization between the* Carabinieri *and the Police will be deferred. Finally, the bill before the Senate envisages a curb on hiring in general government.*

Health services. *– The measures foreseen should reduce expenditure by 4 trillion lire. On the basis of this forecast and taking account of the contribution from the regions, the allocation to the National Health Fund has been fixed at 82.4 trillion lire, including 800 billion of regional balancing funds and 1.6 trillion set aside to make good the deficit for 1990.*

Most of the measures concern spending for pharmaceuticals: the share of the cost borne by users of the National Health Service will be raised from 40 to 60 per cent, the fixed prescription charge will increase from 1,500 to 3,000 lire (from 1,000 to 1,500 lire for certain categories of medicine, such as antibiotics), the maximum prescription charge will be raised from 40,000 to 50,000 lire, and the amounts payable to producers, distributors and chemists for medicines listed by the NHS will be reduced. In addition, users' share of the cost of diagnostic services is to be raised from 30 to 50 per cent and the ceiling on the charge for such services eliminated.

Social security. *– The payment of the recalculated pension arrears owed to retired government managers is to be deferred.*

Transfers. *– The Finance Bill provides for reductions in transfers to enterprises (mainly allocations to Mediocredito Centrale and funds for the payment of loan instalments by ENEL and ENI) and in the allocations to the Regional Fund, the capital account of the National Health Fund and public enterprises, as well as in those for cooperation with developing countries and the post-earthquake reconstruction of municipalities in Basilicata and Campania.*

Other expenditure. *– A series of administrative provisions aim at curbing the spending of the Ministry of Defence on goods and services and the lending of the Savings and Loans Fund (in the latter case, pursuant to Law 202/1991, which lays down that lending by the Fund shall comply with the indications of the Interministerial Committee for Credit and Savings).*

On the other hand, expenditure will be increased by the decision to make a start on the programme for the construction of high speed railway lines.

Effect of the budget on the cash flow of the public sector (1)
(billions of lire)

Increase in revenue	**39,800**
Tax revenue	**21,100** (2)
Senate Bill no. 3005	*21,067*
General condonation scheme	12,000
Compulsory revaluation of company assets	6,500
Amendments to the "Amato Law"	100 (3)
Capital gains tax on land transfers	750
Revision of income tax reference parameters	700
Self-assessment of inheritance tax	600
Deduction of union dues	–100
Measures to collect overdue taxes	500
Inclusion of health tax in income tax return	100
VAT on auction sales	100
Incentives for staff of the tax authorities	–183
Social security contributions	**3,700**
Senate Finance Bill no. 3003	*4,400*
Increases in contributions	2,900 (4)
Reduction in relief for firms in Southern Italy	1,500
Senate Bill no. 3004	*450*
Minor social security measures	150
Inail contributions for agricultural workers	300
Other measures (to be approved)	*–1,150*
Privatizations	**15,000**
Decrease in expenditure	**22,000**
Senate Finance Bill no. 3003	*12,050*
Cap on public sector wages and salaries	6,200
Reduction in transfers to enterprises	2,200
Reduction in transfers to non-state entities	1,750
Reduction in the Regional Fund	900
Reduction in transfers to developing countries	500
Deferral revision pensions of state managers	500
Senate Bill no. 3004	*4,500*
Health services	4,000
Restrictions on hirings	500
Other measures	*1,250*
Limits on purchases of goods and services	1,300
Cap on lending by the Deposits and Loans Fund	1,000
State Railways high speed network	–1,050
Reduction in interest payments	*4,200*
Total	**61,800**

(1) The amounts are derived from the indications of the *Relazione previsionale e programmatica* for 1992. – (2) The budget includes some measures whose net effect is virtually nil, such as the increase in the rate applicable to income earned from CDs and bank deposits with a maturity of less than twelve months and the reduction in the yield of direct taxes as a result of the capping of wages and salaries in the public sector. – (3) The changes are expected to produce 1,100 billion of additional revenue, of which only 100 billion would be payable in 1992. – (4) Net of the reduction in social security contributions due to the capping of wages and salaries in the public sector.

According to the official forecasts, the implementation of the planned economic policies will have a favourable effect on businessmen's expectations regarding the profitability of investment and reassure them concerning the country's full participation in the construction of Europe. The scenario therefore foresees a prompt recovery in gross fixed investment, with a particularly large 4.5 per cent increase in the demand for machinery and equipment. Consumption is forecast to accelerate less, from 2 per cent in 1991 to 2.3 per cent, with public consumption being affected by the measures to curb expenditure and households' consumption by the slower rate of growth in disposable incomes as a result of increased taxation and the implementation of incomes policy. Export demand is assumed to expand by 6 per cent, slightly faster than that for imports. The resulting increase in GDP amounts to 2.5 per cent.

Consumer price inflation is forecast to average 4.5 per cent and to reach 4 per cent at the end of the year. The GDP deflator, which indicates the strength of the domestic component of inflation, is expected to rise by nearly the same amount as the deflator of households' consumption (4.5 per cent). The current account is expected to record a deficit corresponding to 1 per cent of GDP on the favourable assumption of a reduction in the net outflow of income from capital.

An essential condition for the Government's 4.5 per cent objective for consumer price inflation to be achieved is that the rise in labour costs be checked. The slowdown of inflation should benefit from the trend of import prices and from the commitment to maintain the lira stable within the EMS.

The Government has announced its intention of implementing a rigorous incomes policy, in the first place in its role as employer in the negotiation of public sector wage agreements. The key feature of this policy is that the rise in per capita earnings in the public sector is to be limited to the planned rate of inflation of 4.5 per cent, except for increases due to promotions and improvements in the pay of the police and the tax authorities. In the last five years general government sent signals to the private sector that were incompatible with a policy for incomes that would foster disinflation: per capita earnings in the public sector rose over this period by 57 per cent in nominal terms and by 19 per cent in real terms.

Wages in the private sector rose more slowly. Per capita earnings in manufacturing industry increased by 45 per cent in nominal terms and by 9 per cent in real terms. Unit labour costs nonetheless increased by 27 per cent, outstripping the average for manufacturing firms in the rest of the Community by nine points despite a similar improvement in productivity. The negotiations between employers and unions on the structure of labour costs and the procedures for wage bargaining will have to take account of the signal from the public sector regarding the predetermination of earnings in the light of the plan to bring down the rate of inflation.

The multi-year economic convergence plan that the Government recently submitted to the EC Commission pursues the objectives of lower inflation and adjustment of the public finances. The plan, which will be examined by the Council of Finance Ministers in November, reiterates the targets for the public finances laid down in the Economic and Financial Planning Document approved by Parliament in May.

The target for the state sector borrowing requirement in 1992 was set in the Document at 127.8 trillion lire and this figure is confirmed in the Finance Bill for next year. Accordingly, the ratio of the borrowing requirement to GDP is expected to fall from 10 to 8.4 per cent, with a budget surplus excluding interest payments equivalent to 1.7 per cent of GDP.

In order to achieve the target for borrowing, the budget envisages measures to reduce the borrowing requirement of the state sector on a current programmes basis by 61.5 trillion lire and that of the public sector by 61.8 trillion. A detailed description of the measures is given in the insert *"The budget for 1992"*.

The planned adjustment is equivalent to 4 per cent of GDP (matching that implied by the measures adopted to reduce the 1991 budget deficit). For the public sector, the revenue-raising provisions are much more substantial than those curbing expenditure: 39.8 trillion lire, as against 22 trillion. By far the greater part of the additional revenues will come from one-off measures, which are estimated to yield 34 trillion lire, as follows: 15 trillion from privatizations, 12.5 trillion from the tax condonation scheme and 6.5 trillion from the compulsory revaluation of corporate assets. The temporary nature of these receipts will make it all the harder to hold down the borrowing requirement in subsequent years.

Keeping on the path laid down in the May Planning Document for the gradual restoration of the public finances will depend on the policy being implemented in full. Indeed, the 1992 budget needs to be reinforced by strengthening the structural measures in the sectors indicated in the Document: health services, local finances and social security.

The structural changes currently envisaged on the revenue side aim at reducing the scope for evading and avoiding taxes: the adoption of a revised set of ratios for determining taxpayers' presumed income, the elimination of banking secrecy vis-à-vis the tax authorities and the streamlining of procedures. How effective these measures, and the tax condonation scheme, will be in permanently increasing the tax base has to be verified in practice. The measures on the expenditure side include the cap on earnings in the public sector (6.2 trillion lire), increases in the charges for drugs and diagnostic tests (3 trillion) and reductions in their suppliers' margins (1 trillion).

Measures aimed at a root and branch re-organization of health service, local authority and social security spending should be adopted in place of those of a one-off nature in time to affect the outcome in 1992. In the first two fields the direction such action should take has already been indicated in the bills on the reform of the health service and local authorities' powers of taxation, both of which were tabled some time ago. A system for continuously monitoring the results of the various aspects of the budget should be introduced, so that any shortfalls can be made good promptly.

The lira's position in the narrow EMS band is the fulcrum of the whole economic policy. Monetary policy will be directed to ensuring rigorous compliance with this constraint and be consistent with the Government's objective of reducing inflation to 4.5 per cent. In September the Bank of Italy indicated to the Interministerial Committee for Economic Planning that, with nominal GDP forecast to increase by 7.3 per cent, it would keep the growth in M2 between 5 and 7 per cent. This will lead to greater convergence with the monetary conditions of the most stable of our European partners and is designed to counter any tendency for inflation to exceed its target. If the rate of increase in prices comes down as planned, the objective for the growth in the money supply will be compatible with a reduction in nominal interest rates.

Total credit, which includes funds raised abroad, is expected to go on expanding faster than the money supply, though the rate in 1992 is likely to be two percentage points less than that recorded in 1991 owing to the weakening of the demand engendered by firms' reorganization of their financial operations and banks' lending policies. The expansion in domestic credit granted to the non-state sector is forecast to slow by three points.

Based on information available at 26 October.

Articles

Revision of the Monetary Aggregates

1. Reasons and criteria for the revision

The monetary aggregates grew at a steady rate in Italy in the second half of the eighties, in line with the expansion of the economy in nominal terms (Table 1). The slight acceleration in the velocity of circulation of M1 and M2 after 1987 was due to the raising of interest rates, which was necessary to curb inflationary pressures of both foreign and domestic origin. The targets announced for M2 were respected from 1986 to 1988 and only slightly exceeded in the following two years, when monetary growth was stimulated by substantial inflows of foreign exchange. Econometric analysis confirms that the stability of M2 in the last five years accentuated the "announcement effect" of the aggregate and enhanced its importance as an indicator for monetary policy.

Table 1

Monetary aggregates, GDP and consumer prices
(percentage changes)

	M 1 (1) (2)	M 2 Target (1)	M 2 Actual (1) (2)	GDP Real	GDP Nominal	Consumer prices
1986	11.1	7-11	9.6	2.9	11.0	5.8
1987	7.9	6-9	8.6	3.1	9.3	4.7
1988	8.1	6-9	8.9	4.1	11.0	5.1
1989	8.9	6-9	9.5	3.0	9.2	6.3
1990	9.6	6-9	9.9	2.0	9.6	6.5

(1) End-period data until 1989, monthly averages (December on December) for 1990. – (2) The series has been adjusted for the effect of bank strikes at the end of 1989.

Other factors have emerged recently, however, that make it desirable to revise the definitions of the monetary aggregates.[1]

The first is the narrowing of the fluctuation band of the lira within the EMS and the abolition of exchange controls, accompanied more recently by the substantial growth in the use of the lira in banking operations outside Italy. With capital mobility increasing and exchange rates stable, the money stock is tending to be determined endogenously by demand in the market rather than by supply from the central bank and the constraints imposed by reserve requirements. In these circumstances, the relationship between the money supply and the final objectives of economic policy becomes more important than controllability as a criterion for defining the aggregate. Financial instruments from different issuers (e.g. domestic and foreign banks, special credit institutions, the state) should therefore be treated as uniformly as possible, irrespective of the control that can be exercised over them by means of monetary policy, as their liquidity and risk characteristics make them highly interchangeable.

A second new factor is the coordination of monetary policy as part of "stage one" of European Economic and Monetary Union. In order to strengthen the coordination procedure, the Committee of Governors decided to base its deliberations on a common set of indicators, including monetary aggregates; it recognized the need for greater uniformity in the definitions used in the various countries so that international comparisons could be made and in order to avoid double counting or gaps in coverage.

The development of the Italian money market and the introduction of new banking statistics in January 1989 are further reasons for revising the aggregates. The new data available from this source provide an opportunity to achieve significant qualitative improvements, including a more precise classification of the sectors holding monetary instruments.

The changes described below accord with these guidelines, although it was not possible to apply them fully in all cases. In the classification of instruments, the principle of treating all issuers equally runs up against statistical constraints (for example, insufficient information is available on residents' deposits with foreign banks abroad) and market imperfections (statistical evidence shows, for example, that the substitutability of bank certificates of deposit for ordinary bank deposits is still higher than that of similar instruments offered by special credit institutions). The international comparability of the monetary aggregates is limited by the differences that continue to exist between national money markets, although it is satisfactory as far as the narrow aggregates (M1) and the wider aggregates (M2 in Italy, M3 in France and Germany) are concerned.

The revision affects four aspects:

1. *The classification of instruments.* The main changes relate to: banker's drafts issued by the Bank of Italy or other credit institutions, which have been included in the narrow monetary aggregate (M1); banks' securities repurchase agreements with customers and PO savings certificates, which have been removed from M2[2] and included in a wider definition of liquidity ("liquid assets"). The aggregates also include a wider measure covering all financial assets.

2. *Definition of holders.* The traditional definition of the "non-state sector" (comprising essentially households, firms, insurance companies, local authorities and social security institutions) has been retained, but the method of calculation has been improved by incorporating data from the new sources of information on the banking system.

3. *Foreign assets.* The traditional definitions, which relate only to domestic assets, have been complemented by "extended" definitions covering assets held abroad by residents. For statistical reasons this is not possible at present for M1, which in any case is less affected by the international mobility of deposits; in the case of M2, coverage is extended only to include deposits with the foreign branches of Italian banks. These changes go some way towards definitions of money based on the residence of the holder, the approach favoured at Community level.

4. *Average data.* The current month-end data, which are subject to marked random fluctuations, have been replaced by monthly averages. This is consistent with the new reserve requirements introduced in October 1990, which compute banks' compulsory reserves from the monthly average of their customers' deposits.

2. The new definitions

Tables 2, 3 and 4 show the composition of M1, M2 and the "liquid assets" aggregate, and the stocks of each type of financial instrument at the end of 1990; the main differences between the old and new aggregates are indicated in Table 5.

Table 2

Components of M1

	Stocks at December 1990 (billions of lire)
Notes and coin, net of balances with the Treasury, the Bank of Italy, banks, special credit institutions and autonomous government agencies	69,320
Residents' current accounts, (1) in lire and foreign currency	388,016
Current accounts with the Post Office, net of those held by banks	8,257
Current accounts with other bodies (2)	3,295
Banker's drafts issued by credit institutions	12,366
Banker's drafts issued by the Bank of Italy	1,536
Total M1	**482,790**

(1) Including the current accounts of stockpiling agencies. – (2) Including non-compulsory deposits with the Bank of Italy and social security institutions' current accounts with the Treasury.

The M1 aggregate continues to be identified with the notion of transaction balances; the most significant change is the inclusion of banker's drafts issued by the Bank of Italy or other banks. Those issued by banks play a significant role in the Italian payment system, being used for the payment of wages and salaries and the settlement of business transactions. Banker's drafts issued by the Bank of Italy, on the other hand, are used mainly by the public sector to make payments to private sector recipients, such as staff severance payments and tax rebates. They are highly liquid instruments, and for that reason belong in M1; they had been excluded hitherto owing to insufficient information on the breakdown of holders according to sector. As the new banking statistics make this information available, they can now be treated in the same way as other instruments with similar characteristics.

Table 3

Components of M2

	Stocks at December 1990 (billions of lire)
M1	482,790
Residents' lira deposits with banks:	
– savings deposits and time deposits	176,153
– certificates of deposit	119,893
Deposits with the Post Office:	
– savings accounts	23,627
Total M2	**802,463**
Residents' deposits with foreign branches of Italian banks	1,640
Total "extended" M2	**804,103**

Unlike its predecessor, the new definition of M2 does not include securities repurchase agreements between banks and their customers or PO savings certificates. Securities repurchase agreements entail the temporary sale of securities from a bank's portfolio to customers (households and firms), usually for short periods. From the customer's point of view, the transaction is a flexible form of investment, with the added advantage of diversification away from government securities. The decision as to the monetary aggregate in which these operations should be included depends on the function they perform and the extent to which they can be regarded as substitutes for other financial instruments; in particular, the customer may consider them either as an alternative to deposits or as an alternative to securities. The yields on such operations, which are generally comparable to those on securities, suggest a high degree of substitutability with the latter; from the point of view of the banks, it can be argued that repurchase agreements are a flexible and profitable means of mobilizing their portfolios, rather than being a way of increasing their resources. These considerations, combined with the difficulty of recording the operations statistically and the increase in their use due to their exemption from the reserve requirement as from May 1991, militated in favour of their removal from M2; they are, however, contained in the broader liquid assets aggregate in the same way as long-term securities.

In theory, PO savings certificates are sight securities, but in practice they are a form of long-term investment owing to the mechanism governing their yield; the longer they are held, the higher the rate of interest they bear, thus encouraging investors to hold them until maturity. The high average life of the certificates – around 7 years – confirms the effectiveness of the mechanism. In view of these characteristics, it seems appropriate to exclude them from the monetary aggregates; nevertheless, like securities repurchase agreements, they are included among liquid assets.

Table 4

Components of the liquid assets aggregate

	Stocks at December 1990 (billions of lire)
M2	802,463
Treasury bills in lire held by the non-state sector	280,424
Bankers' acceptances held by the non-state sector	1,539
PO savings certificates	90,594
Banks' securities repurchase agreements with customers	7,958
Treasury bills in ecus	140
Certificates of deposit issued by special credit institutions	62,678
Total liquid assets	**1,245,796**

The "extended" M2 aggregate also includes residents' deposits with the foreign branches of Italian banks. As mentioned above, this is in line with the need to achieve greater international consistency in the composition of the monetary aggregates; with that in mind, the prevailing Community approach is to move towards definitions based on the country of residence of the holder, thus including in the national money supply all monetary instruments held by residents, irrespective of issuer or currency. Logically, residents' deposits with foreign banks should also be included, but for statistical reasons it is not possible to do so at present. The decision not to eliminate the traditional aggregate but to operate it in parallel with the new "extended" definition is consistent with the policy agreed with the other member countries of the Community.

In addition to the items mentioned above, liquid assets comprise M2, banker's acceptances, CDs issued by special credit institutions and Treasury bills in lire and ecus. The inclusion of Treasury bills denominated in ecus, which had previously only formed part of the wider financial assets aggregate, is justified by the fact that they are close substitutes for Treasury bills in lire, given the stability of exchange rates and the fact that they have a maturity of one year. Floating-rate Treasury credit certificates are not included among liquid assets, in view of the pronounced volatility of their market value, as demonstrated by the experience of the last few years.

Certificates of deposit issued by special credit institutions, which are excluded from the present M3 aggregate, are thus included in the new definition of liquid assets. As a slight departure from the criteria set out above, it has been deemed necessary for the present to continue to treat these instruments differently from bank CDs, which are included in M2. Empirical evidence indicates that the public still tends to differentiate between CDs on the basis of issuer; CDs issued by special credit institutions are regarded as less close substitutes for bank deposits than those issued by banks.[3]

As regards the holders of monetary instruments, it was decided to retain the traditional definition of "non-state sector", which broadly accords with practice in the majority of other countries. Local authorities and social security institutions were originally included among holders for statistical reasons; there appears to be even stronger justification for their inclusion since the introduction of centralized Treasury accounts for local authorities in 1984, which accentuated the nature of their liquid funds as transaction balances, so that their behaviour now more closely resembles that of private sector balances. The method of calculation has been amended, however; the definition of the state sector, which is used to obtain the non-state sector as a residual, has been revised in order to achieve a better classification of the bodies included in central government.

Table 5

Composition of the monetary aggregates: comparison between the old and new definitions

	M 1		M 2			Liquid assets	
	Old	New	Old	New	"Extended"	Old (1)	New
Notes and coin	x	x	x	x	x	x	x
Bank current accounts	x	x	x	x	x	x	x
Residents' current accounts in foreign currency	x	x	x	x	x	x	x
PO current accounts	x	x	x	x	x	x	x
Current accounts with other bodies	x	x	x	x	x	x	x
Banker's drafts issued by the Bank of Italy		x		x	x		x
Banker's drafts issued by other credit institutions		x		x	x		x
Bank savings deposits			x	x	x	x	x
CDs issued by banks			x	x	x	x	x
PO savings accounts			x	x	x	x	x
Deposits abroad (2)					x		
Securities repurchase agreements			x			x	x
PO savings certificates			x			x	x
CDs issued by special credit institutions							x
Treasury bills in lire						x	x
Treasury bills in ecus							x
Bankers' acceptances						x	x

(1) M3. – (2) Lira and foreign currency deposits with Italian banks operating abroad.

The M1 and M2 aggregates (Table 6) are measured on the basis of monthly averages instead of month-end figures as previously. This meets a dual requirement: to increase the significance of the data, which would otherwise be influenced by random movements on the last day of the month, and to maintain consistency with the new reserve requirements, which since October 1990 have been based on average monthly data on bank deposits instead of end-period figures.

At present, the average monthly stock figures on bank deposits are estimated from ten-day returns; in future they will be calculated as averages of daily data notified by the banks.[4]

Table 6

Monetary aggregates (1)

(average monthly data; stocks in billions of lire)

	M 1	M 2	"Extended" M 2
1985 - Jan.	279,121	477,011	477,426
Feb.	269,705	470,592	470,941
Mar.	264,291	467,455	468,015
Apr.	267,326	470,236	470,918
May	264,468	470,292	470,831
June	265,459	469,203	469,774
July	273,233	475,806	476,370
Aug.	272,299	478,067	478,575
Sept.	273,878	480,392	480,845
Oct.	276,361	484,745	485,190
Nov.	278,942	487,686	488,324
Dec.	289,383	496,192	496,811
1986 - Jan.	306,285	528,691	529,082
Feb.	295,868	512,620	512,970
Mar.	291,062	506,214	506,559
Apr.	294,632	507,659	508,034
May	295,326	505,753	506,189
June	293,884	504,155	504,596
July	299,222	508,507	508,912
Aug.	297,861	509,661	510,046
Sept.	301,418	515,008	515,384
Oct.	307,111	522,056	522,431
Nov.	311,180	529,386	529,763
Dec.	325,362	548,808	549,186
1987 - Jan.	337,356	571,434	571,799
Feb.	325,123	558,729	559,099
Mar.	321,133	554,563	554,959
Apr.	325,437	559,082	559,486
May	327,216	561,126	561,587
June	327,506	560,760	561,264
July	333,755	566,627	567,077
Aug.	332,939	565,307	565,690
Sept.	332,900	566,281	566,643
Oct.	338,831	572,652	573,039
Nov.	342,838	578,205	578,620
Dec.	350,660	588,146	588,517
1988 - Jan.	363,182	610,541	610,855
Feb.	349,594	592,382	592,689
Mar.	343,880	587,251	587,551
1988 - Apr.	350,095	592,957	593,257
May	351,840	594,984	595,285
June	351,624	594,202	594,506
July	359,911	606,266	606,609
Aug.	358,967	606,118	606,476
Sept.	360,515	610,266	610,746
Oct.	369,763	621,294	621,939
Nov.	370,358	622,932	623,649
Dec.	376,281	633,109	633,819
1989 - Jan.	386,807	654,983	655,690
Feb.	371,848	635,497	636,320
Mar.	370,488	635,287	636,096
Apr.	377,334	645,502	646,454
May	381,816	650,072	651,078
June	375,718	644,447	645,261
July	387,440	659,105	660,035
Aug.	384,018	655,963	657,015
Sept.	384,215	658,638	659,658
Oct.	389,964	665,109	666,154
Nov.	391,496	669,007	670,009
Dec.	414,739	695,635	696,634
1990 - Jan.	437,820	727,583	728,692
Feb.	412,527	702,770	703,938
Mar.	406,964	695,391	696,475
Apr.	415,092	705,198	706,416
May	414,762	706,811	708,666
June	407,900	697,233	699,636
July	418,998	711,809	714,076
Aug.	411,389	707,360	709,358
Sept.	418,943	716,627	718,649
Oct.	426,719	729,559	731,395
Nov.	426,490	732,581	734,220
Dec.	444,320	752,690	754,322
1991 - Jan.	458,103	774,515	777,476
Feb.	438,828	757,823	761,470
Mar.	436,121	754,866	758,144
Apr.	440,937	759,712	763,078
May	441,745	761,659	764,815
June	439,943	757,241	760,215

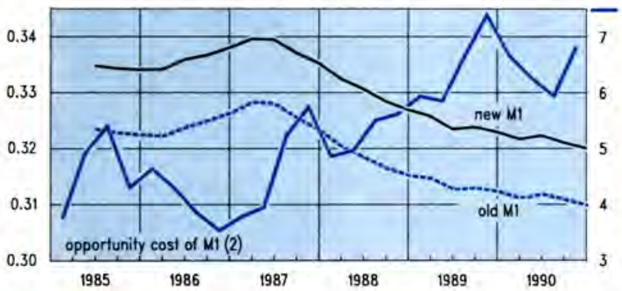
(1) The new customer classification used in banking supervision statistics was adopted with effect from January 1989; this resulted in a downward shift in the series, estimated at about 1,500 billion lire.

3. Behaviour of the aggregates in recent years

The relatively minor adjustments in M1 do not cause substantial changes in the behaviour of the aggregate; the rates of growth are similar to those calculated on the basis of the old definition. The ratio of M1 to GDP remains relatively stable (Figure 1); it is consistently higher for the new aggregate than for the old one as a result of the inclusion of banker's drafts. Both ratios remain almost constant until 1987 and then tend downwards. After 1987 the increase in the velocity of circulation of money was accompanied by an increase in the aggregate's opportunity cost, expressed by the differential between the yield on lira Treasury bills and the average yield on the instruments contained in M1.

Figure 1

Ratio of M1 to GDP (1)



(1) Calculated from a four-term moving average for M1 and a four-term "moving sum" for GDP. – (2) Net rate on Treasury bills in lire less a weighted average of the yields on the various components of M1 (percentages).

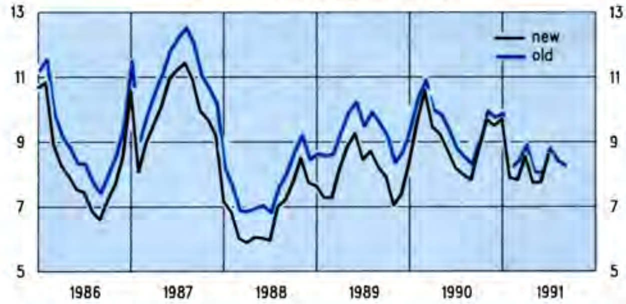
The differences between the old and new definitions are more marked in the case of M2. As Figure 2 shows, the twelve-month rates of growth in the new aggregate are consistently below those in the one it supersedes, although not by much (an average of 0.8 percentage points, 0.2 points at the end of 1990). This difference is due mainly to the removal of PO savings certificates, which in recent years have grown more rapidly than other assets included in the old M2.

The rates of growth in the "extended" aggregate are almost identical to those in M2 until the end of 1988; before that date residents' deposits abroad were extremely small owing to the restrictions on capital movements. In subsequent years the gradual removal of exchange controls was accompanied by an increase in such deposits, which caused "extended" M2 to grow at a slightly faster rate than the "domestic" version of the aggregate (Figure 3).

The ratio of the new M2 to GDP is lower than that for the old aggregate (Figure 4); the effect of excluding securities repurchase agreements and PO savings certificates far outweighs that of including banker's drafts.

Figure 2

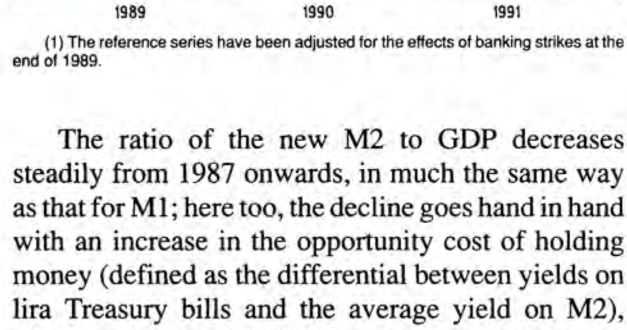
12-month rates of growth in M2 (1)
(old and new definitions)



(1) The reference series have been adjusted for the effects of banking strikes at the end of 1989.

Figure 3

12-month rates of growth in M2 (1)
(new definition)

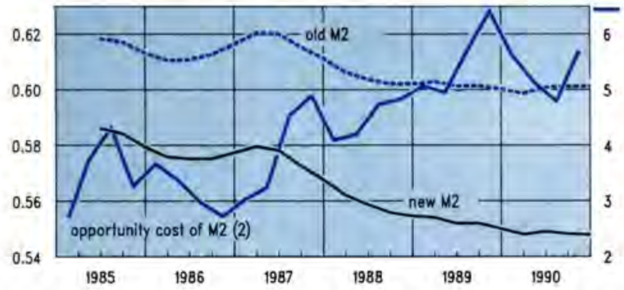


(1) The reference series have been adjusted for the effects of banking strikes at the end of 1989.

The ratio of the new M2 to GDP decreases steadily from 1987 onwards, in much the same way as that for M1; here too, the decline goes hand in hand with an increase in the opportunity cost of holding money (defined as the differential between yields on lira Treasury bills and the average yield on M2), which encouraged portfolio adjustment in favour of short-term securities.

Figure 4

Ratio of M2 to GDP (1)



(1) Calculated from a four-term moving average for M2 and a four-term "moving sum" for GDP. – (2) Net rate on Treasury bills in lire less a weighted average of the yields on the various components of M2 (percentages).

The decrease in the ratio for the old M2 over the same period is far less pronounced; presumably the replacement of deposits by assets comparable to short-term securities had a limited effect on the old aggregate because to some extent it occurred within the aggregate itself, since it involved securities repurchase agreements and PO savings certificates.

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1 The last revision was carried out in 1985; see the article in Economic Bulletin No. 1.

2 This corresponds to the "harmonized M3" that is also calculated by the other leading European countries.

3 The power now granted to special credit institutions to repurchase CDs from their own customers within certain limits may lead to greater substitutability in future.

4 For the components of the aggregates for which only month-end data are available, the average stock has been estimated by interpolation between successive months.

The Pension System: Reasons for Reform

The reform of public pension systems has been called for in most western countries in recent years. Despite transnational differences in institutional arrangements, the underlying reasons are largely common. The most important considerations are demographic: it is feared that present retirement provisions, many of which originated long ago, are not financially sustainable in our rapidly aging societies. It is also argued that today's programmes direct too many resources to the elderly, whose economic conditions have improved markedly in recent decades, thus preventing adequate income support to the social groups in which poverty is now most prevalent.

These problems are particularly acute in Italy. Pension spending is proportionally higher than in any other western industrial country (13.9 per cent of GDP in 1990), and the fertility rate is among the lowest (1.3 children per woman of childbearing age). Moreover, the incidence of pensions on total social spending is very high by international standards (65 per cent).

The problems afflicting western pension systems in general are compounded by the peculiar development of the Italian system: the rules differ significantly from group to group, retirement provisions are turned to social and economic ends that are not strictly appropriate to a pension system, and continual changes in rules have resulted in significant disparities of treatment depending on year of retirement. Thus pension reform is made urgent not only by financial considerations but also by those of equity and by the exigencies of the labour market.

The present article outlines recent trends in pension expenditures in Italy, frames them in an international perspective, offers a brief account of the main problems of the Italian pension system, and, finally, reports on the guidelines for reform set forth in the Government's Economic and Financial Planning Document in May.

1. The number of pensions being paid in Italy rose from 12.5 million in 1970 to 16.5 million in 1980 and over 19 million in 1990. In the seventies the bulk of the increase was accounted for by disability pensions dispensed by INPS (an additional 2 million). In the eighties the fastest-growing categories were INPS retirement benefits (a rise of over a million) and disability pensions (800,000), together with civil servants' pensions (half a million). The growth in the number of pensions paid can be ascribed to employment trends, lower death rates and the effects of reforms enacted in previous decades. The most noteworthy of these reforms were the extension of social security to the self-employed and to needy elderly or disabled persons and the introduction of seniority pensions, which can be taken before the standard retirement age. Another factor in the increase was the easing of eligibility requirements for certain benefits, first the INPS disability pension and then, in the eighties, the civil disability pension. The expansion of the number of beneficiaries was further spurred in the eighties by early retirement programmes for economically ailing firms and industries in which labour demand contracted significantly. At the end of the decade, some 200,000 workers below the regular retirement age were drawing early retirement benefits.

The average amount of the retirement benefit has also risen very substantially, from 25 per cent of average gross earnings of employees in 1970 to 28 per cent in 1980 and 36 per cent in 1990. This rise stems from the increase in contribution years and the steady improvement of the rules governing both initial pension awards and indexation. In the later eighties the expansion of benefits was accentuated by measures raising "social" pensions (old age welfare benefits) and the minimum retirement benefit for low-income workers, increasing the minimum self-employed person's pension to the level accorded employees and redetermining the level of earlier pension awards. The latter measures remedied benefit disparities stemming from rules changes concerning initial pension awards and from the combination of the previous indexation system with rapid inflation. Some court decisions also expanded pension outlays. Finally, there has been a steady relative increase in the numbers of retirees entitled to larger pensions (civil servants, for instance) and a reduction in groups with comparatively small benefits (self-employed farm workers and the recipients of "social" pensions).

Overall, public expenditure on retirement provisions rose from 7.5 per cent of GDP in 1970 to 10.2 per cent in 1980 and 13.9 per cent in 1990, far outstripping the growth in other kinds of social spending, which increased just from 6.5 to 6.9 and then 7.3 per cent. Essentially, in part because short-run savings on pension outlays are impracticable, curbs on social spending concentrated more heavily on health services, unemployment benefits and family allowances.

In the course of the seventies there was a steady relative gain in the social insurance component of the pension system as compared with the welfare component, although this trend was reversed in the eighties, owing chiefly to the increase in civil disability pensions. In 1990 the two components accounted respectively for 90 and 10 per cent of retirement expenditure. The importance of retirement benefits increased progressively over the two decades, accounting for over half of total expenditure in 1990. Conversely, the share of disability and survivors' benefits declined.

The increase in outlays was accompanied by a sharp improvement in the economic conditions of the elderly and of pension beneficiaries in general. The poverty rate for households headed by persons older than 65 has declined steadily over the two decades to about the same as for the general population. Households headed by a pensioner did remain slightly more likely to be poor (13 per cent in 1987 as against 11 per cent for other households), but the extent of their poverty (i.e., the difference between actual income and the poverty line) was less (a gap of 19 per cent in 1987, as against 28 per cent for other households).

The incidence of public pension expenditure is considerably greater in Italy than in most other western countries. In the mid-eighties the figure averaged 8.9 per cent of GDP for OECD countries, while in Italy it was 4 points higher.

The disparity in expenditure levels, which is increasing, depends on Italy's use of the pension system for purposes achieved elsewhere through other kinds of benefits and above all on Italy's more liberal eligibility requirements and more generous award standards.

Among EEC countries, Italy has the lowest retirement age (60 for men, 55 for women in the Employee Pension Fund), one of the highest accrual rates (2 per cent of pensionable earnings for each year of contributions) and among the most advantageous systems for calculating pensionable salary (the last five earning years in the private sector, final salary for public employees). Indexation is also highly favourable, in that retirement benefits are linked to the earnings of employed workers, not to prices as in other countries (though in real terms, owing to the characteristics of the reference index, the adjustment to wages is only partial). Finally, Italy has relatively liberal rules on cumulability of benefits and on survivors' benefits, which are neither means-tested nor subject to an age ceiling.

2. The outlook, in the absence of rules changes, is for pension expenditure to continue to outpace GDP growth. The maturation of the pension funds, especially the increase in the average number of contribution years, will be compounded by a rise in the old-age dependency ratio.

Recent estimates by INPS and the State Accounting Office, which essentially concur with those of the Technical Committee on Public Expenditure, both project a very substantial rise in the theoretical equilibrium social security tax rate (i.e., the ratio of pension benefits to incomes subject to pension contributions). For the Employee Pension Fund, INPS projects the rate to rise from 39.5 per cent in 1990 to 45 per cent in 2010 (and from 43 to 48.5 per cent if the earnings base excludes incomes exempted or taxed at a lower rate). The more recent estimates of the State Accounting Office put the rate at 48 per cent in 2010 and 57 per cent in 2025. The equilibrium rates for the principal categories of self-employed workers would also rise significantly, on the basis of the reforms that went into effect in 1990. INPS estimates that the rate for artisanal workers would rise from 11 per cent in 1990 to 27 per cent in 2010, and for shopkeepers and the like from 11 to 22 per cent. Over the same period, according to State Accounting Office estimates, the equilibrium rate for state employees would rise from 40 to 45 per cent.

Failing corrective action, these tendencies will necessitate either an increase in compulsory social contribution rates, which even now are far below the equilibrium rate for the Employee Pension Fund, or an increase in central government budget outlays. The first course would be a blow to the competitiveness of Italian firms. The second would require massive compensatory action involving tax revenues and other expenditure items, seriously jeopardizing the rehabilitation of the public finances.

Furthermore, Italy's pension system produces undesirable effects on the labour market and on the distribution of income. The segmentation into several funds, each with its own rules, hampers the mobility of workers both between and within the public and private sectors. The lack of an actuarial correlation between the size of the pension benefit and the age of retirement is an incentive for the earliest possible retirement. The lack of a strict correspondence between contributions paid in and entitlements accrued encourages evasion and avoidance of contributions. The provisions for seniority pensions and the non-cumulability of pensions with income from employment tend to foster "underground" employment and withdrawal from the labour market.

The standards for the means testing of certain benefits, the rules on cumulability and the lack of correspondence between contributions and benefits have contradictory effects on income distribution. Other things being equal, the purchasing power of pensions is inversely proportional to the inflation rate in the year prior to the year of retirement. After the initial award, medium-level and larger pensions lose purchasing power in proportion to inflation, which thus in this way too distorts the relative value of the retirement benefits. The reference period for calculating pensionable salary (the last paycheck for public employees, the last five earning years for the private sector) works in favour of those whose earnings have risen most rapidly towards the end of their careers.

3. The Economic and Financial Planning Document for 1992-1994 cites pension reform as essential to the re-establishment of control over the growth in expenditure, hence to the long-term health of the public finances. To this end the Government delegated the Minister of Labour and Social Security to propose draft legislation for the reform of the pension system to curb the growth in outlays by raising the retirement age, increasing the number of years of contributions required for eligibility and lengthening the reference period for the calculation of the pensionable salary. The reform should also gradually harmonize the treatment of the different groups of workers.

The Government also plans general revision of the welfare components of the pension system, and in particular a review of the means tests for these benefits. It has also defined the role to be played by private pension plans, which, operating under competitive conditions and on a funded basis, should extend the range of choices available to individual workers concerning the size and other features of their retirement benefits.

Speeches

The Size and Development of the Financial Markets

Speech by the Deputy Director General, Antonio Fazio, to the Conference on Securities Traders and the Integration of Securities Markets in Europe, organized by the Italian Association of Bank Securities Traders

Turin, 8 March 1991

It is certainly relevant to the field in which securities traders operate, namely the market in negotiable financial instruments, that, as economies develop, the ratio of wealth to national income tends towards certain equilibrium values while the financial component of wealth grows.

The counterpart to financial wealth is capital goods, the accumulation of which is made possible by investors' holding financial instruments. However, some of this wealth takes the form of claims on entities or individuals considered able to repay the principal with interest at a later date, in other words to "service" their debt. The largest share of such claims consists of lending to the government, with loans to households next in importance.

I shall not venture into the minefield of the theories of the public debt, and particularly the question of whether or not the public debt constitutes real wealth. A government security, a claim on the state, constitutes wealth from the point of view of the holder, since he is certain he will receive interest and be repaid the principal and can always dispose of his investment before maturity.

The real counterparts to the public debt are public investments, public works of general utility and even investments in intangible assets, such as organization and research. If correctly implemented, all of these types of expenditure contribute to the growth of the economy and the development of society.

Those who finance the public sector are displaying their confidence in the economy's capacity to develop. Similarly, loans are made to industrial firms on the strength of their ability to generate a flow of new wealth in the future.

Borrowers turn to the banking system if the credit risk is high or the project is difficult to evaluate, owing to its intrinsic complexity, for example. Loans are raised directly in the markets when evaluation is simpler. However, markets are usually interested only if the prospective borrower can offer a guarantee, which is generally tied to the reputation of the firm or institution rather than to the specifics of the operation.

The same type of relationship is to be found in the raising of funds through an issue of shares, which is essentially a credit granted on the strength of the entrepreneurial ability of an individual or group.

1. The composition of wealth

Table 1 shows the net financial assets of the household sector in relation to its disposable income in the leading industrial countries.

Table 1

Households' net financial wealth in relation to disposable income

	1975	1980	1985	1988
Germany	1.23	1.37	1.62	1.73
France	0.80	0.84	0.98	1.14
Italy	0.98	0.97	1.29	1.56
United Kingdom	1.39	1.19	1.65	1.79
Japan	0.99	1.24	1.66	(1) 2.17
United States	2.16	2.71	2.70	2.64

Source: OECD.
(1) Refers to 1987.

It can be seen that the United States has constantly ranked first, France last and the United Kingdom, Germany and Italy in-between. Japan has moved up the table over the years, its ratio having risen from a rather low level in the mid-seventies to the second highest value in the more recent years.

It is a tenet of macroeconomic financial analysis that a country's wealth can be measured from the net wealth of households, since firms ultimately belong to households and their valuation should be reflected in the value of the securities held by this sector.

In Italy a considerable part of the productive sector is owned by the government, public bodies and foundations, and is therefore not a component of households' net wealth. At the same time, however, households hold public debt instruments, which in part correspond to public property, including production plant, and in part are simply claims on the government.

* * *

The ratio of households' total financial and real wealth to disposable income in Italy is broadly in line with that recorded in the other leading industrial countries, as shown in Table 2, which contains a series of ratios based on various definitions of households' wealth and income. The ratio in the United States has remained notably constant at around 4.5. A number of widely accepted theories, particularly Modigliani's life-cycle theory of saving, explain the level and constancy of the ratio in mature developed economies. The ratio in Japan has increased rapidly, a trend similar to that already mentioned with regard to financial wealth. In the other major industrial countries, including Italy, the ratio has risen slowly and steadily to between 4 and 5.

* * *

Two peculiarities of Italy immediately come to light when we combine the information presented in Tables 1 and 2.

First, the value of households' direct holdings of real estate (consisting almost entirely of homes) accounts for more than two thirds of their overall wealth and is more than three times greater than the sector's disposable income.

At the other extreme is the United States, the country with the most highly developed financial market, where real estate accounts for less than half of households' total wealth and is equivalent to around twice the national income. In the other main countries for which data are available, the real wealth component is as large as in Italy or nearly so; Japan is again in an eccentric position, while Canada falls between Italy and the United States.

Secondly, when we examine the composition of (net) financial wealth, we find that the value of shares held by the Italian household sector is equal to less than 15 per cent of its disposable income. The corresponding ratio is even lower in Germany, but this is because shares are owned by banks while households own liabilities (deposits and bonds) issued by banks.

The proportion of financial wealth held in the form of shares is highest in the United States, where it is equal to around 70 per cent of income, but it is also very high in Japan, France, Canada and the United Kingdom.

I shall discuss this second point in detail later.

Table 2

Households' wealth (1)

	1975	1980	1985	1986	1987	1988
UNITED STATES						
Net wealth/income (2)	4.25	4.78	4.58	4.66	4.62	4.58
Gross financial wealth/income	3.16	3.51	3.58	3.66	3.59	3.58
Net financial wealth/income	2.46	2.71	2.70	2.74	2.65	2.64
Shareholdings/income	0.57	0.62	0.69	0.75	0.68	0.66
Total liabilities/income	0.70	0.80	0.88	0.92	0.94	0.94
Interest-bearing assets/liabilities (3)	1.42	1.29	1.41	1.31	1.30	1.29
Interest-bearing assets/income	0.99	2.19	1.24	1.21	1.22	1.21
JAPAN						
Net wealth/income (2)	4.14	5.04	5.74	6.48	7.80	....
Gross financial wealth/income	1.61	2.00	2.56	2.78	3.19	....
Net financial wealth/income	0.99	1.24	1.66	1.85	2.17	....
Shareholdings/income	0.20	0.24	0.30	0.43	0.67	....
Total liabilities/income	0.62	0.76	0.90	0.93	1.02	....
Interest-bearing assets/liabilities (3)	1.57	1.70	1.85	1.82	1.74	....
Interest-bearing assets/income	0.97	1.29	1.67	1.69	1.78	....
GERMANY						
Net wealth/income (2)	....	....	....	....	....	....
Gross financial wealth/income	1.32	1.52	1.78	1.83	1.86	1.90
Net financial wealth/income	1.23	1.37	1.62	1.66	1.69	1.73
Shareholdings/income	0.04	0.03	0.04	0.05	0.05	0.05
Total liabilities/income	0.09	0.15	0.16	0.17	0.17	0.17
Interest-bearing assets/liabilities (3)	9.33	6.83	7.28	7.33	7.32	7.01
Interest-bearing assets/income	0.84	1.02	1.17	1.25	1.24	1.19
FRANCE						
Net wealth/income (2)	....	....	....	....	....	....
Gross financial wealth/income	1.39	1.46	1.61	1.82	1.77	1.90
Net financial wealth/income	0.80	0.84	0.98	1.15	1.03	1.14
Shareholdings/income	0.31	0.21	0.43	0.62	0.53	0.67
Total liabilities/income	0.59	0.62	0.63	0.67	0.74	0.76
Interest-bearing assets/liabilities (3)	1.58	1.62	1.49	1.43	1.33	1.30
Interest-bearing assets/income	0.93	1.00	0.94	0.96	0.98	0.99
ITALY						
Net wealth/income (2)	3.53	3.70	3.70	4.06	4.57	4.62
Gross financial wealth/income	1.07	1.04	1.37	1.55	1.58	1.67
Net financial wealth/income	0.98	0.97	1.29	1.45	1.48	1.56
Shareholdings/income	0.05	0.06	0.11	0.19	0.13	0.13
Total liabilities/income	0.09	0.07	0.08	0.10	0.10	0.11
Interest-bearing assets/liabilities (3)	7.94	10.16	12.45	10.65	10.78	10.64
Interest-bearing assets/income	0.71	0.71	0.99	1.07	1.08	1.17
UNITED KINGDOM						
Net wealth/income (2)	4.07	3.91	4.48	4.88	5.10	....
Gross financial wealth/income	2.03	1.70	2.45	2.71	2.75	2.78
Net financial wealth/income	1.39	1.19	1.65	1.84	1.82	1.79
Shareholdings/income	0.30	0.21	0.26	0.33	0.41	0.41
Total liabilities/income	0.64	0.51	0.80	0.87	0.93	0.99
Interest-bearing assets/liabilities (3)	....	....	1.03	0.96	0.90	0.85
Interest-bearing assets/income	....	....	0.82	0.83	0.84	0.84
CANADA						
Net wealth/income (2)	3.72	4.06	3.84	3.96	4.06	4.14
Gross financial wealth/income	2.12	2.39	2.38	2.46	2.51	2.58
Net financial wealth/income	1.31	1.52	1.65	1.68	1.67	1.68
Shareholdings/income	0.47	0.58	0.55	0.57	0.57	0.56
Total liabilities/income	0.81	0.87	0.73	0.78	0.84	0.90
Interest-bearing assets/liabilities (3)	....	....	1.33	1.29	1.27	1.27
Interest-bearing assets/income	....	....	0.97	1.01	1.07	1.14

Source: OECD.
(1) Income refers to the disposable income of the household sector. Wealth is calculated on end-of-period nominal data. Shares are at market prices and include the shareholdings of pension funds. – (2) Includes housing. – (3) Excludes insurance policies, interests in pension funds and certain other minor items.

2. The financial deepening of the economy

The household sector's gross financial wealth is a more appropriate measure of the financial deepening of an economy than the sector's net financial wealth, as the holding of real assets has a counterpart in a certain degree of indebtedness of the household sector towards the financial system; this indebtedness in turn generates further financial intermediation and financial instruments. In the data I presented previously, such indebtedness was deducted from households' gross financial assets to obtain the net values. There are considerable problems of international comparability, but if we ignore a number of differences in statistical definitions we find that in the United States, Japan and the United Kingdom the debt owed by households to banks and financial intermediaries is equal to a year's flow of income. Debt is also very high in France, but it is (fortunately) negligible in Italy, as well as in Germany.

Table 3

Financial wealth and total assets in relation to income

	1980			1988		
	Net wealth	Total liab.	Gross wealth	Net wealth	Total liab.	Gross wealth
USA	2.71	0.80	3.51	2.64	0.94	3.58
Japan	1.24	0.76	2.00	2.17	1.02	3.19
UK	1.19	0.51	1.70	1.79	0.99	2.78
Germany .	1.37	0.15	1.52	1.73	0.17	1.90
France ...	0.84	0.62	1.46	1.14	0.76	1.90
Italy	0.97	0.07	1.04	1.56	0.11	1.67

The gross data shown in Table 3 reveal the high degree of financial intermediation in the leading industrial countries other than Italy and Germany. The ratio of gross financial assets to income is twice as high in the United States as it is in Italy and is also very high in Japan and the United Kingdom.

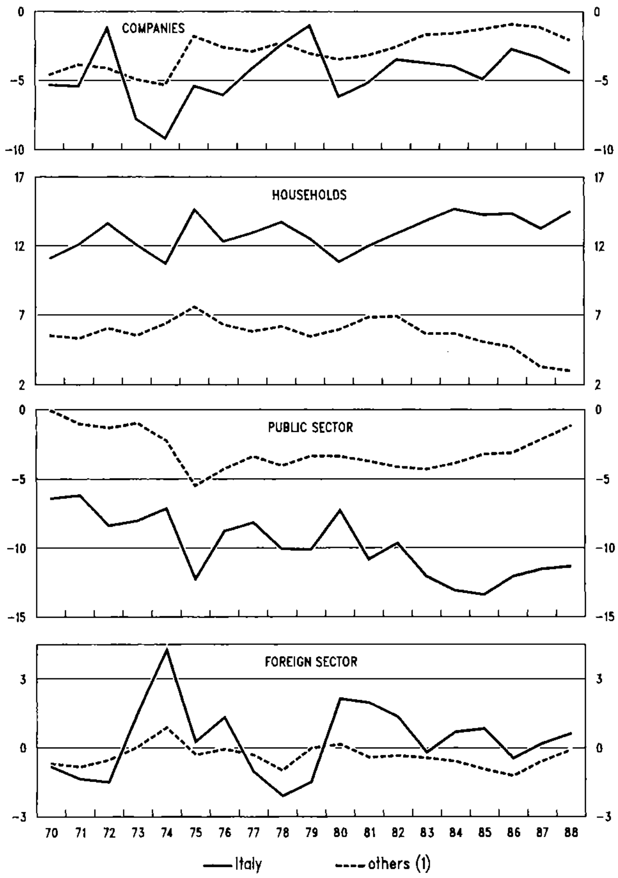
The data indicate that the financial system carries out a considerable volume of credit and savings intermediation within the household sector itself. This is not the case in Germany and Italy, where households are not indebted and are essentially lenders to the government and enterprises.

In Italy the formation and use of savings are far more polarized according to sector than is the case elsewhere: the large absorption of savings by the public sector is mirrored in the high level of households' savings. In other countries the public sector has a smaller burden of debt and households save less. However, firms' indebtedness to the banking system is only marginally higher in Italy than the average for the other countries.

Figure 1

Financial balances of the main sectors

(ratios to GDP)



Source: OECD, Financial Statistics, Part 2, various years.

(1) Average of the values for France, Germany, Japan, the United Kingdom and the United States.

Claims on the financial system consist of bank deposits, which are non-negotiable instruments (although the tendency is to make a part of such assets tradable by issuing certificates of deposits), and other credit instruments, all of which are in principle tradable on the stock exchange and specialized markets.

Since the ratio of bank deposits to national income differs little from one country to another (except Japan, where it is particularly high), it follows that the differences among countries in the ratio of gross financial wealth to income are attributable entirely to negotiable instruments.

In the countries with the most highly developed financial markets, the ratio of negotiable instruments to income is double or treble that of Italy.

An initial conclusion is that the further financial deepening of the Italian economy will necessarily be in the sector of negotiable securities.

3. Fixed interest securities

The Italian market seems sufficiently developed as regards medium and long-term bonds and government securities. The stock of such securities outstanding at the end of 1989 was $595 billion, equal to 65 per cent of gross national product, compared with 40 per cent in France, 54 per cent in Germany and 95 per cent in the United States. However, government securities accounted for three quarters of the total stock of fixed interest securities in Italy, as against 30 per cent in the United States and around 38 per cent in France and Germany.

Table 4

Bonds and medium and long-term government securities

(stocks in billions of dollars; year-end data) (1)

	France	Germany	Italy	United Kingdom	United States
Total stocks					
1980	....	280.1	166.3	....	....
1985	173.1	377.6	276.3	....	2,996.0
1989	420.7	715.0	594.8	....	4,621.5
of which: Government securities					
1980	*37.0*	*66.7*	*69.8*	....	*394.7*
1985	*54.1*	*110.6*	*195.5*	*180.6*	*976.0*
1989	*158.3*	*271.4*	*455.4*	*184.0*	*1,389.5*
Credit institutions					
1980	....	*211.0*	*66.0*	....	*79.3*
1985	....	*266.0*	*56.9*	....	*178.0*
1989	*199.6*	*441.9*	*100.9*	....	*279.8*
Other issuers					
1980	....	*2.3*	*30.5*	....	*1,044.8*
1985	....	*1.0*	*23.9*	....	*1,842.0*
1989	*63.1*	*1.6*	*38.5*	....	*2,952.2*
		percentages			
Total stocks/GDP					
1980	....	39.5	45.7	....	....
1985	29.4	50.8	57.1	....	75.4
1989	40.4	54.0	64.9	....	95.3
Government securities/total					
1980	....	23.8	42.0	....	....
1985	29.6	29.3	70.8	....	32.6
1989	37.6	38.0	76.6	....	30.1

(1) Only securities denominated in domestic currency are shown. Amounts are translated into dollars at year-end exchange rates. For the United States, the data for 1989 refer to end-1988; US government securities include Treasury notes and Treasury bonds, while municipal bonds are included under those of "other issuers". For Germany, government securities include those issued by the Post Office.

Corporate bonds (including junk bonds) are the most developed segment of the fixed interest market in the United States. In Germany, by contrast, bonds issued by banks accounted for two thirds of the securities outstanding at the end of 1989, although the balance is likely to shift towards government securities as a result of expected developments in that country. Bonds issued by banks also make up a fairly large part of the market in Italy. The volume of bonds issued by non-financial companies is negligible in all the European countries.

The often-noted abnormal expansion of the market in government securities in Italy is evident when we broaden our analysis to include fixed interest securities with a maturity of one year or less. In recent years net issues of government securities of all maturities have ranged between 8.42 and 9.66 per cent of GDP, while gross issues have risen sharply, to 57 per cent of GDP in 1990.

Table 5

Gross and net issues of government securities in Italy as a percentage of GDP

	1987	1988	1989	1990
Gross issues ...	41.45	49.12	50.30	57.13
Net issues	8.70	9.66	9.32	8.42

The rise in the ratio of gross issues to GDP primarily reflects the shortening of the average residual maturity of the public debt from 1986 onwards, following an improvement in the first half of the eighties from the low point of less than one year recorded at the end of 1982.

At the end of 1989 the average residual maturity of the public debt was slightly less than two and a half years in Italy, compared with four years in France, six in the United States and ten in the United Kingdom.

The shortening of the average residual maturity of Italy's public debt came to a halt in 1990 and is bound to be reversed as a result of the good take-up of seven and ten-year government securities in recent months.

Table 6

Residual maturity of the public debt in Italy

(year-end data)

	Years	Months	Days
1986	3	8	3
1987	3	6	18
1988	3	0	1
1989	2	5	17
1990	2	5	16

The large size of the Italian public debt and its short average maturity entail making annual gross issues of government securities that exceed those of France, Germany, Japan and the United Kingdom combined.

Despite the abnormality of the figures for Italy, medium-term interest rates are not out of line with those in several other important European countries, although the shorter average maturity must be borne in mind. At the end of 1990 the average pre-tax rate on medium-term securities was 13.5 per cent in Italy, compared with about 10 per cent in France and 9 per cent in Germany. Italy's inflation rate in 1990 was around 3 percentage points higher than that of France and about 4 points higher than Germany's.

Nominal and real interest rates are distinctly lower in the United States, the United Kingdom and Japan. In the first two countries the depth and sophistication of the financial market probably favour the successful placement of long-term government securities. In Japan the solidity of the economy and its expected growth facilitate long-term government borrowing at moderate rates.

4. The secondary markets

Italy has achieved notable progress in recent years in creating and strengthening its financial infrastructure. These advances are the result of coordinated efforts and constant cooperation between dealers, your Association and the supervisory authorities.

Table 7

Issues of government securities
(in 1989; billions of dollars)

	France	Germany	Japan	Italy	United Kingdom	United States
Gross issues						
Medium and long-term	32.9	36.1	45.5	54.9	–	363.6
Short-term	76.1	–	163.1	392.4	43.3	1,095.0
Total	**109.0**	**36.1**	**208.6**	**447.3**	**43.3**	**1,458.6**
Gross issues/GDP (%)	10.3	2.7	7.7	47.8	5.3	28.2
Residual maturity (years)	4.1	....	5.4	2.4	10.2	6.0

Sources: Based on data published by the central banks; for the United States, data from the Treasury Bulletin. Amounts are translated into dollars at end-1989 exchange rates.

Daily turnover on the secondary market in government securities has risen from a paltry initial level to 285 billion lire in 1989, 1.7 trillion in 1990 and more than 3 trillion in the first few months of 1991. The number of securities traders who are party to the Convention has increased from 190 to 230 and the number of listed securities from 37 to 60.

There are now 20 primary dealers, with 9 candidates on the waiting list; their immediate admission is prevented by the limitations of the communications network, which are also an obstacle to increasing the number of listed securities.

The market has functioned in an orderly manner at times of crisis. The automatic listing of new issues and the issue of securities in tranches have established benchmarks and increased the liquidity of securities. This has facilitated arbitrage between the primary and secondary markets in the period preceding auctions and has made competitive quotations available immediately thereafter.

Despite the market's rapid growth, off-market trading is still considerable, owing in part to the fact that only around one half of the issues in circulation are listed. Indirect data indicate daily off-market turnover of around 12 trillion lire.

The market's efficiency is broadly comparable with and in some respects surpasses that of more developed financial centres. In Italy trading is screen-based, whereas elsewhere the telephone is still widely used. Bid-offer spreads on benchmark securities range between 2 and 4 basis points, compared with 3 in the United States, 6 in the United Kingdom and 10 in France. Primary dealers transact 75 per cent of all trades with third parties, compared with 50 per cent in the United Kingdom and 40 per cent in the United States. Daily turnover is double that of the French market, but only around one third that in the United Kingdom and a small fraction of the figure of 130 trillion lire recorded in the United States.

The fear that primary dealers' portfolios might increase excessively, causing them to incur losses, has proved to be unfounded. The banks have reduced their holdings of government securities by more than 40 trillion lire in the last three years, and a number of primary dealers are able to balance their position before the close of business each day. Whereas some primary dealers in the United Kingdom and the United States have reported losses and ceased to trade in government stock, all the estimates indicate that this is a profitable activity in Italy, as confirmed by the fact that no primary dealer has ever declined to deal or withdrawn to make room for a candidate from the waiting list.

* * *

Economists of the Keynesian school – but "we are all Keynesians now" as regards the aspect I am about to treat – know that imbalances in the securities market at both the macroeconomic and microeconomic levels reappear, with the opposite sign, in the money market.

Equilibrium is determined simultaneously on the securities market and the money market by interest rates and the demand for securities and money respectively. In operational terms, an efficient securities market requires an equally efficient money market.

The screen-based market for interbank deposits, which was also created at the initiative of traders, has grown rapidly in its first year of activity. Daily turnover has risen from 4 to 8.5 trillion lire, while the volume of interbank funds traded off-market has fallen by half. The market is perfectly transparent and provides continuous information and continuous multilateral trading. Ten banks, accounting for 40 per cent of the market volume, operate in the market at all times, although they are under no obligation to do so. The bid-offer spreads on 24-hour deposits have narrowed from between 40 and 60 basis points to less than 10, despite the distorting effect of withholding tax.

The market reacts immediately to interventions by the Bank of Italy; there is a strong positive correlation between the overnight rate and the rates on repurchase agreements.

Market efficiency has been enhanced by the mobilization of compulsory reserves, with deposit rates becoming more significant and less volatile (in the case of overnight rates the ratio of the standard error to the mean has declined from 0.47 to 0.12).

The screen-based market has attained a respectable size: daily turnover is twice as large as the stock of free reserves (cash on hand, plus undrawn advances and excess reserves) and is equal to 15 per cent of the total balances on interbank accounts. The distribution of deposits by maturity is less satisfactory; longer maturities, such as 1 and 3 months, are under-represented and 24-hour deposits account for 85 per cent of the total. Dealers should seek to expand trading in longer-term deposits, partly in view of the eventual increase in the proportion of compulsory reserves that can be mobilized from 3 to 5 per cent.

5. Shares

The share market is the area in which Italy's financial system seems most backward by comparison with those of the other major countries. The Italian share market has advanced considerably over the past decade in terms of turnover, new issues, the number of listed companies and the macro-economic importance of share prices, but it has grown less rapidly than the market in fixed interest securities and the money market.

Table 8

Shares on the Milan Stock Exchange

	Gross issues (1)	Turn-over	Market capital-ization	Listed compa-nies	Mkt cap./ GDP
	(billions of lire)			*(number)*	*(%)*
1977	357	754	5,616	145	3.1
1980	1,442	7,343	21,901	134	5.6
1981	5,100	12,334	28,149	132	6.1
1982	3,152	3,770	27,737	137	5.1
1983	4,592	5,880	34,806	140	5.5
1984	5,341	7,143	48,181	144	6.6
1985	4,969	26,323	98,933	148	12.2
1986	14,523	66,609	186,698	184	20.8
1987	6,716	41,926	140,723	205	14.4
1988	5,184	41,308	175,802	212	16.2
1989	7,389	53,542	215,200	218	18.1
1990	12,658	50,689	170,764	223	14.0 (2)
Average:					
1977-80 .	1,726	3,152	11,566	–	4.1
1981-85 .	4,631	11,090	47,561	–	7.1
1986-90 .	9,294	50,815	177,838	–	17.0

(1) Including bonus issues. – (2) Estimate based on provisional data.

The number of companies listed on the stock exchange rose from 145 in 1977 to 223 in 1990, as shown in Table 8. Market capitalization increased from an average of 4.1 per cent of GDP in 1977-80 to 7.1 per cent in 1981-85 and 17 per cent in 1986-90. The value of transactions also rose considerably over the three periods, in line with market capitalization. Gross issues grew from an annual average of 1,726 billion lire in 1977-80 to 9,294 billion in 1986-90.

The data shown in Table 9 reveal an interesting fact about the relative size of the official market. Share issues by listed companies have increased much more rapidly than those by unlisted companies, rising from around one fifth of all domestic share issues in 1961-71 to almost one half of the total in 1981-89.

Table 9

Share issues in Italy
(average annual data)

Issuers	1961-71	1972-80	1981-89
		(billions of lire)	
Listed companies	**124**	**800**	**6,200**
State-controlled	....	527	2,645
Private	....	273	3,555
Unlisted companies	**459**	**1,632**	**7,163**
State-controlled	....	565	3,546
Private	....	1,067	3,617
Total	**583**	**2,432**	**13,363**
State-controlled	....	1,092	6,191
Private	....	1,340	7,172
		(percentages)	
Listed companies	**21.3**	**32.9**	**46.4**
State-controlled	....	21.7	19.8
Private	....	11.2	26.6
Unlisted companies	**78.7**	**67.1**	**53.6**
State-controlled	....	23.2	26.5
Private	....	43.9	27.1
Total	**100.0**	**100.0**	**100.0**
State-controlled	....	44.9	46.3
Private	....	55.1	53.7

The picture is far less satisfactory, however, when compared with the situation in other countries.

The market capitalization of companies listed on the Italian stock exchange was equivalent to 14 per cent of GDP in 1990, compared with 24 per cent in Germany, 30 per cent in France, 46 per cent in the United States and 90 per cent in the United Kingdom.

The disparity is even more pronounced in terms of turnover. In 1989 turnover on the official market was equal to 4.5 per cent of GDP in Italy, compared with 11 per cent in France, 30 per cent in Germany and the United States, and 43 per cent in the United Kingdom.

Table 10

Share market capitalization in relation to GDP
(percentages)

	1982	1985	1989	Average 1982-89	1990 (Est.)
United States	41.8	44.8	58.1	47.8	46.1
Japan	38.6	60.0	144.7	81.3	80.8
United Kingdom	43.3	49.7	98.4	68.1	90.2
Germany	10.6	23.9	30.2	18.7	23.7
France	6.2	13.8	34.6	17.0	30.3
Italy	5.1	12.2	18.1	12.4	14.0

Source: Goldman Sachs, Anatomy of World Market, 1989. Estimates for 1990 are based on Morgan Stanley Capital International Perspective, and IMF, International Financial Statistics, January 1990.

Table 11

Share turnover in relation to GDP
(percentages)

	1982	1985	1989	Average 1982-89
United States	18.5	24.5	31.7	27.9
Japan	13.6	21.1	87.7	43.3
United Kingdom	14.5	26.5	43.2	39.5
Germany	2.6	10.8	30.1	17.1
France	1.8	3.0	11.3	5.8
Italy	0.7	3.2	4.5	2.8

Sources: Goldman Sachs, Anatomy of World Markets, and Morgan Stanley Capital International Perspective. The figures for 1989 for the EC countries are from Federation of Stock Exchange in the EC, Statistical Yearbook, 1989.

However, Italy more than measures up to countries with more firmly established financial traditions and more modern systems if one looks at the ratio of gross issues of both listed and unlisted shares to GDP; here Italy's ratio is in fact one of the highest among the industrial countries.

The information in Table 12 offers an initial response to a remark one sometimes hears, even among dealers and analysts, that "the substantial development of the government securities market is an impediment to the development of the share market".

Table 12

Share issues in relation to GDP (1)
(percentages)

	1982	1985	1989	Average 1982-89
United States ..	1.0	0.9	0.7	1.0
Japan	0.8	0.8	3.9	1.5
United Kingdom	0.4	1.2	1.4	1.4
Germany	0.4	0.6	0.9	0.6
France	0.9	1.8	5.2	2.4
Italy	1.3	1.8	1.7	1.7

Sources: Based on OECD data and IMF, International Financial Statistics.
(1) Gross issues of both listed and unlisted companies.

The data on share issues show that sufficient financial resources and private savings are generated in Italy to absorb as large a volume of share issues as in other countries, a point corroborated by Table 13. At the end of 1990 the stock of fixed interest securities, three quarters of it consisting of government securities, amounted to 1,246 trillion lire, or roughly the value of GDP. At the same date the value of listed shares totalled 170 trillion lire and that of unlisted shares 900 trillion lire.

The growth in the volume of fixed interest securities from about 50 per cent of GDP in 1970 to over 100 per cent in 1990 was accompanied by a similar increase in that of shares, but listed shares continued to account for only a small part of the total stock.

These figures can now be set beside those examined earlier concerning the composition of households' wealth. I pointed out that Italian households' real and financial wealth includes holdings of listed and unlisted shares equal to around 15 per cent of disposable income. The bulk of shares is held by companies, public entities, foundations and financial intermediaries.

The following conclusions can be drawn:

i) Italian households' wealth is concentrated in real assets (housing), and the proportion invested in shares is very small by comparison with the other leading industrial countries except Germany;

Table 13

Stocks of securities in Italy
(billions of lire)

	Stocks			Percentage ratios		
	Fixed interest securities (a)	Listed shares (1) (b)	Unlisted shares (1) (c)	(a)/GDP (2)	(b)/GDP (2)	(b+c)/GDP (2)
1970	30,978	7,880	21,393	49.3	12.5	42.8
1975	92,789	7,532	32,989	74.0	6.0	28.9
1980	228,488	21,901	143,556	58.9	5.6	42.7
1981	278,389	28,149	181,482	60.0	6.1	45.2
1982	348,521	27,737	174,636	63.9	5.1	37.1
1983	440,777	34,806	214,640	69.6	5.5	39.4
1984	520,658	48,181	288,189	71.6	6.6	46.3
1985	637,461	98,933	575,680	78.4	12.2	83.0
1986	749,550	186,698	796,500	83.5	20.8	109.6
1987	850,884	140,723	724,213	86.9	14.4	88.4
1988	1,007,279	175,802	840,822	93.0	16.2	93.9
1989	1,128,789	215,200	969,167	95.0	18.1	99.7
1990 (3)	1,246,000	170,764	900,000	101.9	14.0	87.6
Average 1981-85	**445,161**	**47,561**	**286,925**	**68.7**	**7.1**	**50.2**
Average 1986-90	**996,500**	**177,837**	**846,140**	**92.1**	**16.7**	**95.8**

(1) At market value. – (2) GDP at market prices. Revised national accounts data from 1980 onwards. – (3) Provisional data.

ii) in view of the high saving ratio, the growth in the public debt has not prevented a parallel increase in the overall stock of shares, which reflects the expansion of the economy and its broadly balanced financial structure;

iii) the discrepancy between the size of the official market and that of the potential market for shares is considerable.

6. The prospects for the financial markets

A comparison with more advanced financial systems reveals characteristics of the Italian financial system that need to be examined in order to identify the ways in which the system may evolve.

An important aspect is the polarization between the formation of financial savings and the use of savings.

One of our economy's basic strengths is the high saving ratio in the private sector, and especially in the household sector.

Home ownership and the consequent high proportion of housing assets in households' wealth indicate an attachment to traditional values and social relationships. Excessive recourse by households to bank credit, a phenomenon of considerable macroeconomic significance in other countries, would reduce households' capacity to save. Nonetheless, an increase in mortgage credit facilities could help reduce the appreciable rigidities in the housing market, make the transfer of ownership easier and enable more people, especially young people, to become homeowners.

In some other countries, especially those in the Anglo-Saxon tradition, credit to households has assumed such proportions that it is harmful to the banking sector and depresses the saving ratio. Nonetheless, sensible ways to improve the Italian system need to be explored.

* * *

The level of bank intermediation, measured in terms of deposits, is relatively uniform among the countries I have considered. There is some scope for further growth, but increased lending to households to finance purchases of real assets should be achieved primarily by widening the range of negotiable securities issued by credit institutions.

We have seen that the corporate bond market is particularly small in Italy, although a similar situation can be found in other countries. It is reasonable to suppose that there is room for an expansion in issues of medium-term securities by intermediaries to fund longer-term lending for housing, urban improvements, public works and civil and industrial infrastructure.

The experience and efficiency acquired in handling government securities can be used to create equally deep and efficient markets for privately issued securities.

* * *

As regards equities, the potential supply and demand exist, but most wealth in the form of shares does not pass through the market. In this field the markets need to be created – a very considerable undertaking in which Parliament, the supervisory authorities and intermediaries old and new will have to play their part.

7. Conclusions

At the start of a decade that will see a greater mobility and internationalization of credit, intermediaries and savings, our financial system's points of relative "backwardness" can be turned into a springboard for further expansion.

Italy produces some of the world's most advanced goods and services. The Achilles' heel of an inefficient public sector and large and recurring budget deficits is balanced by a rate of private saving that is one of the highest among the industrial countries. The financial system has made a virtue of necessity in the government securities market and the money market. The advances in this field have been considerable and extremely rapid.

Our analysis has shown that Italy lags well behind as regards the holding of shares. This form of credit to private enterprise continues to be provided on what might be called a bilateral basis: firms are owned directly by private entrepreneurs, with limited recourse to the market either to raise new capital or, especially, to transfer ownership.

The country's social structure is reflected to an extent in the way in which it organizes production. The system of small and medium-sized firms has been a strong point of the Italian economy, especially during and after the crisis of the seventies. However, the lack of mechanisms and types of financial entrepreneur that could channel through the market some of the transactions that still take place bilaterally is an impediment to the growth of small and medium-sized firms, however innovative and well-managed they may be.

In this sector, I repeat, the market has failed to exploit a supply and a demand that are potentially considerable.

More widespread listing of firms on organized stock markets, pension funds that encourage savers to increase their indirect ownership of risk capital, and legislation to fill the gaps in the regulatory framework will foster market growth.

Fiscal factors are an impediment and seriously distort the ratio of firms' own capital to borrowing, the ratio of interest expenses to dividends and the composition of households' real and financial wealth.

The growth of the secondary market for government securities, which has modernized our financial system and enhanced its stability, has been favoured by appropriate tax treatment. Tax provisions that actually penalize the interbank market could jeopardize its further expansion, cause business to migrate to other countries and thus harm the functionality, efficiency and stability of the domestic market.

The financial system is complex and segmented, but it is a single system nonetheless. The functional inadequacy of some sectors is tending to drive business away to foreign markets that are better organized, partly because they are broader, more efficient, liquid and transparent. A risk of this kind has already become real in the share market.

Markets in derivative instruments can play an important part in improving the system's functionality. There is appreciable scope for derivative markets to develop and to supplement the operations of the primary and secondary markets. This is another field that offers financial entrepreneurs potential for development.

Taking the flows of credit and saving and the accumulation of real and financial wealth as a basis, I have shown that the problems of the various segments of the financial market are closely interconnected, and I have focused, in particular, on the potential for developing the markets in negotiable securities. This is the field in which the financial traders and entrepreneurs gathered here operate, in a new situation of complete openness to international transactions and competitiveness, for the further economic and social growth of Italy.

The Internationalization of the Italian Financial System

Address by the Director General, Lamberto Dini, to the Italian Association of Foreign Securities Traders (AIOTE), Chia Laguna (Cagliari), 8 June 1991

I should like to thank the Chairman of AIOTE for his kind words of welcome. My participation at your Conference has for many years provided an agreeable opportunity to reaffirm both the Bank's and my own interest in the development of the markets and their participants' expertise. The market is now acquiring a major role even in sectors in which it was formerly absent. The existence of deep and efficient markets is of fundamental importance for firms, investors and the whole economic system.

In recent years I have directed your attention to the transformation and future prospects of the international financial market with the aim of assessing the progress made in adapting the Italian market to the needs arising from the ever closer integration of the leading industrial countries' financial systems.

This year, in outlining the latest developments, I shall focus in particular on the broad strategies followed by Italian intermediaries since exchange controls were lifted and seek to identify the conditions that would enable our banks to play a greater role in international financial business.

The stability of the international financial system

The last ten years have seen a rapid expansion of financial activity in the leading industrial countries. The adoption of policies favouring access to national markets and their integration has been a major factor in this growth. The international commitment to the free circulation of goods and capital has provided an important reference point for operators' strategies.

The growth of finance has not aggravated the factors of instability inherent in the world macroeconomic situation as might have been feared. Indeed, it has cushioned their effects. As markets have come closer, new openings have been created and formerly protected sectors exposed to competition. On the whole finance has fulfilled its primary task by shifting resources from surplus sectors to those in deficit, reducing costs and operating risks, and enhancing the system's overall efficiency.

The opening of markets and the growth of financial systems have not been without strains, which revealed the fragility of institutions that had grown too fast. Superfluous structures, competitive excesses and the taking on of risks that could not be sustained in the long term caused crises among the less efficient participants. Safeguarding intermediaries' stability and the orderly functioning of markets – the principal task of the supervisory authorities – requires that such behaviour be circumscribed.

The authorities responsible for supervising the markets have continued, individually and through closer international coordination, to develop a regulatory framework aimed at ensuring the soundness of intermediaries, whose entry and continued presence in the market must depend on their having adequate capital. Progress is being made in extending prudential supervision to non-banking intermediaries with the introduction of rules and minimum capital requirements. Steps are also being taken to strengthen the mechanisms of intermediation, such as payment systems, in order to reduce the risks of illiquidity and forestall crises in international financial transactions.

Events in the markets have made participants more cautious in their diversification and expansion plans, and they are now required to disclose adequate information concerning their capital and the conditions they offer. This transparency is vital to allow other operators and investors to make a proper assessment of intermediation risks.

The international financial market in 1990

The slowdown of the world economy, the marked depreciation of the dollar and uncertainties in the wake of the Gulf crisis resulted in net issues on the international market falling by around 10 per cent in 1990.

According to the BIS, total gross issues of securities on the international market amounted to about 240 billion dollars last year, decreasing by 9 per cent, while net issues fell by 24 per cent. Net issues of equity-linked shares, which had expanded strongly in 1989, were depressed by the decline in share prices, particularly on the Tokyo stock exchange, and fell by nearly 70 per cent. By contrast, floating-rate issues recovered. In the second half of the year they benefited from Japanese banks' recourse to subordinated loans, which they used to bring their capital ratios up to the minimum requirements laid down in the Basle agreement.

The depreciation of the dollar in 1990 influenced the currency composition of securities issues; the dollar share of gross new issues fell from nearly 50 per cent to 36 per cent during the year. The shares of the Canadian and Australian dollars also declined. Issues denominated in the other principal currencies recorded a rise: following the pound's participation in the EMS exchange rate mechanism, its share rose to a new peak and the lira and peseta sectors of the market also expanded.

One of the key aspects of 1990 was the expansion and diversification of the ecu market. Progress towards Economic and Monetary Union and the creation of an area of stability to which non-EEC countries also refer stimulated purchases of ecu-denominated assets by non-European investors. A sizable fall in ecus issued by the banking system owing to the slowdown in their lending resulted, for the first time, in the pressure of demand causing ecu exchange and interest rates in the market to diverge from those based on the basket currencies that compose the ecu: interest rates fell below the yield of the ecu basket, while the rate of exchange was often higher. This suggests that markets increasingly consider the ecu as a currency in its own right, rather than as a basket of currencies.

Net international bank credit also slowed down last year, contracting sharply in the last quarter. This reflects the incipient credit crunch in the United States and Japan caused by the greater caution shown by US and Japanese intermediaries following the deterioration in the quality of some banks' assets. The syndicated loan market was particularly affected by the cautious stance of Japanese investors and banks; the latter curtailed growth in lending in view of their capital adequacy ratios being below the minimum levels laid down in the Basle agreement.

Capital movements in Italy since liberalization

The removal of exchange controls has been followed by a steady increase in capital flows into Italy. As early as 1987, the balance of payments on a settlements basis recorded net capital inflows of more than 10 trillion lire (Table 1). Since then, the flows have increased more than fivefold. In 1990 the inflow of non-bank capital amounted to around 30 trillion lire, while that via banking channels totaled 23 trillion: the fastest-growing non-bank items were portfolio investment inflows and outflows and fund-raising by Italian operators, mostly in the Eurobond market.

Table 1

Balance of payments on a settlements basis: balance of capital movements
(billions of lire)

	Non-bank capital					
	Investment capital		Loans		Total	Bank capital
	Italian	Foreign	Italian	Foreign		
1987	–7,235	515	–1,914	13,388	4,754	5,573
1988	–13,360	16,517	–1,493	11,500	13,164	10,224
1989	–14,055	20,107	–772	19,640	24,920	14,979
1990	–32,211	30,581	–4,253	35,387	29,504	22,974

Italian investors have exploited to the full the opportunities offered by the new exchange regulations to diversify their portfolios in terms of both currencies and instruments; the shift proceeded in an orderly manner. Between the end of 1987 and the end of 1990 the stock of foreign portfolio investments rose from 21.5 to over 71 trillion lire; last year new investments amounted to over 104 trillion lire and disinvestments to 81 trillion (Table 2). The choice of portfolio investments was spread over a wide range of sectors, though more than half the purchases were concentrated in public sector institutions, especially supranational agencies, which are exempt from tax. Funds were invested above all in Luxembourg, the United States, Germany and Japan (see Annexes I, II, III and IV).

Table 2

Balance of payments on a settlements basis: investment and disinvestment of Italian capital
(billions of lire)

	Portfolio			Direct and other			Deposits and current a/c			Net flow
	Inward	Outward	Balance	Inward	Outward	Balance	Inward	Outward	Balance	
1987	12,049	15,795	–3,746	1,962	5,451	–3,489	—	—	—	–7,235
1988	24,746	31,635	–6,889	1,420	7,891	–6,471	—	—	—	–13,360
1989	37,542	48,282	–10,740	5,329	8,644	–3,315	—	—	—	–14,055
1990	81,229	104,214	–22,985	5,357	14,249	–8,892	5,492	5,826	–334	–32,211

Table 3

Italian investment abroad by class of resident investor (1)
(billions of lire)

		1988		1989		1990	
		Investment	Disinvestment	Investment	Disinvestment	Investment	Disinvestment
Financial firms:	Government securities ..	7,802	7,255	6,380	6,531	7,766	5,985
	Listed shares	3,848	3,520	5,179	3,858	7,239	3,960
	Unlisted shares	233	153	1,014	601	699	1,195
	Listed bonds	5,195	3,931	12,505	10,527	41,036	25,503
	Unlisted bonds	173	103	429	169	4,072	2,598
	Investment funds	98	396	376	1,505	319	422
	Equity participations	261	..	648	20	1,653	209
	Total	**17,610**	**15,358**	**26,531**	**23,211**	**62,784**	**39,872**
Insurance companies:	Government securities ..	1,408	1,397	402	599	215	150
	Listed shares	1,021	926	394	983	168	130
	Unlisted shares	293	26	276	448	268	207
	Listed bonds	1,599	1,524	1,405	934	721	223
	Unlisted bonds	98	104	39	475	38	4
	Investment funds	33	13	10	17	..	..
	Equity participations	1	..	140	206	465	22
	Total	**4,453**	**3,990**	**2,666**	**3,662**	**1,875**	**736**
Private investors:	Government securities ..	272	81	1,329	1,486	4,586	2,840
	Listed shares	513	214	733	2,296	1,350	1,169
	Unlisted shares	39	142	687	265	767	348
	Listed bonds	4,673	1,287	11,796	4,746	19,190	17,174
	Unlisted bonds	3	..	280	38	3,351	921
	Investment funds	435	1,382	417	644	557	462
	Equity participations	21	5	249	118	346	128
	Total	**5,956**	**3,111**	**15,491**	**9,593**	**30,147**	**23,042**

(1) Includes transactions completed without the transfer of foreign exchange.

The growth in resident institutional investors' demand for foreign securities has been accompanied by an increase in that of private investors, who operate mainly through Italian banks. In 1990 they made foreign investments totaling over 30 trillion lire and disinvestments amounting to 23 trillion, with a preference for listed bonds; the corresponding figures for 1988 were 6 trillion and 3 trillion lire respectively (Table 3).

The increase in Italian investment abroad was amply offset by inward flows of capital in the form of both portfolio investments and loans. The latter accelerated particularly fast: net inflows, including public sector – and particularly Treasury – loans, rose from 11.5 trillion lire in 1988 to more than 35 trillion last year.

For the monetary authorities, borrowing by the Italian Republic in international markets does not spring from a need to have permanent and large-scale access to sources of finance in alternative to the domestic market. On the one hand the size of the Euromarkets rules out frequent large borrowings, on the other an increase in the foreign currency share of the public debt is an option that the Bank of Italy certainly does not entertain in view of its implications for domestic monetary policy.

The Treasury's activity in the Euromarket in the second half of the eighties was based on strategic considerations: to establish its standing and consolidate a credit rating that would enable Italian borrowers to obtain the best market terms; to counter unjustified expectations concerning domestic interest rates; and to send signals regarding the lengthening of maturities. The outcome was a measured volume of financing that contributed to the structural strengthening of the market.

This is especially true of the ecu market, in which the Italian state has played a positive and effective role. Italy's first large issue of ten-year bonds in March 1990 marked the start of the successful development of the long-term segment. Whereas the five-year maturity had seemed an insuperable barrier, the Italian Treasury has, at appropriate intervals, issued paper with maturities of up to twenty years. At the same time net domestic issues of Treasury bonds and certificates in ecus were reduced from around 17 trillion lire in 1988 to 10 trillion in 1989 and 3 trillion in 1990; in the first five months of this year none were issued (Table 4).

Table 4

Issues of Italian Treasury bills and certificates in ecus
(billions of lire)

	Gross issues	Repayments	Net issues
1982	1,592	..	1,592
1983	822	..	822
1984	1,792	..	1,792
1985	3,602	..	3,602
1986	2,360	..	2,360
1987	4,543	..	4,543
1988	18,456	1,582	16,874
1989	20,340	9,766	10,574
1990	14,129	11,155	2,974
1991 (1)	3,458	3,458	..
Total	**71,094**	**25,961**	**45,133**

(1) At 31 May 1991.

Italy's Euromarket debt totals less than $20 billion (Table 5). In May this year repayments of 30 billion yen and 370 million ecus were made. Issues by the Italian Treasury, including the most recent, have been favourably received. Italy's credit rating is now being reviewed. This amounts to an invitation by the rating agencies to continue the efforts to correct the structural imbalances of the Italian economy. Their assessments should take account not only of the modest size of Italy's foreign debt but also of the steps taken by the Government to bring the budget deficit back within the limits originally set by the end of this year and of the plan to reduce it dramatically over the next three years. The policy of the authorities remains that of restricting recourse to the Euromarket to operations that are compatible with these strategic objectives.

Other borrowers raised a much larger volume of funds abroad. The liberalization of capital movements has opened new opportunities for those intermediaries, such as medium and long-term credit institutions, who have difficulty in meeting their needs in the domestic market. The mechanisms that govern the international market nonetheless require that access be orderly and as continuous as possible.

Table 5

Issues of Eurobonds by the Italian Treasury

(millions of dollars)

	Gross issues	Repayments	Net issues
1984	1,500	..	1,500
1985	2,110	..	2,110
1986	1,452	700	752
1987	3,389	..	3,389
1988	2,000	1,000	1,000
1989	3,196	2,289	907
1990	6,118	1,000	5,118
1991 (1)	5,015	861	4,154
Totale	**24,780**	**5,850**	**18,930**

(1) At 31 May 1991; translated at the rates obtaining on 27 May 1991.

Italian borrowing in the market for syndicated loans has accelerated rapidly in recent years, rising to $14 billion in 1990 and exceeding that of France ($9 billion) and Germany ($4 billion), though remaining less than that of the United Kingdom ($27 billion). Many Italian operators opt for syndicated loans for tax reasons; the repayment terms are also more flexible than those of bonds and thus better answer the needs of medium and long-term credit institutions and project financing. While the advantages offered by specialized sectors of the market are to be exploited, an excessive flow of new loans, especially if they were bunched, would tend to cause unjustified cost increases and could jeopardize future fund-raising.

Foreign intermediation by Italian banks

An analysis of Italian capital movements reveals a more dynamic and organized financial system seeking to gain international market shares.

The dynamism shown by Italian operators as both investors and borrowers abroad is having beneficial effects on intermediation in the Italian financial system. Despite the economy's growing importance, Italian banks had formerly been unsuccessful in improving their position in international financial intermediation – a "low profile" that not even the long period of exchange controls could explain.

This situation is changing gradually: the commitment by Italian banks to promote the spread of ecu and lira-denominated instruments is bearing fruit. The 1990 league table of Eurobond book-runners lists six Italian banks in the top sixty, where only a few years ago there were none. Seven Italian banks are currently gaining ground in the syndicated loan market. A growing number of Italian issuers are guided in the international market by Italian intermediaries, who can offer competitive terms for both traditional and more recent products. If Italian intermediaries succeeded in attracting more non-resident customers they could further improve their standing and acquire a higher international profile.

At last year's conference I anticipated the monetary authorities' intention to open the Eurolira market to foreign intermediaries. As recently announced, foreign banks will also be able to act as lead managers for new issues from 1 July, provided they undertake to match their activities in the primary market with adequate business in the secondary market, as Italian banks are required to do. On the same date the queueing system for issues will be replaced by a more streamlined procedure, whose preparation owes much to your Association. This is a first step towards liberalization, which will proceed in stages to enable operators to prepare properly.

Italian banks are increasing their foreign intermediation not only in the capital market sector, but also in credit business. BIS statistics show that the foreign assets of Italian banks almost doubled in the last five years. The growth accelerated following liberalization, which enabled Italian banks to keep pace with the expansionary trend of international banking business. The recent removal of the compulsory reserve on banks' net foreign positions should enhance the Italian banking system's competitiveness.

Despite recent progress, Italian-owned banks' share of international banking assets is still modest: at the end of 1990 it was 5.5 per cent, less than those of France (9 per cent) and Germany (10 per cent), though higher than that of the United Kingdom.

However, if the calculation is based on banks' country of residence instead of ownership, the United Kingdom's share rises to 18 per cent owing to London's strong position as an international centre, while Italy's falls to 1.5 per cent.

Italian banks' foreign business still consists mainly of foreign currency and Eurolira loans to residents, though they have diversified the sources of their deposits and built up business with ordinary customers. At the end of 1990 business with "non-banks" accounted for 36 per cent of the total, against 27 per cent in 1987. In the same period the share of interbank business fell from 68 to 56 per cent, compared with slightly over 50 per cent in France and the United Kingdom. Italian parent banks are less integrated with their foreign branches and subsidiaries than their French and British counterparts. Italian banks' claims on their foreign establishments are about 7 per cent of their total assets, against 16 per cent in the United Kingdom, 18 per cent in Germany and 19 per cent in France.

After a period of relative inertia between 1985 and 1988, the last two years saw the number of foreign branches of Italian banks start to rise again, with 7 new units in 1989 and 9 in 1990: at the end of April this year there were 96 foreign branches, nearly half of them in EEC member states.

The total assets of Italian banks' foreign branches increased by 11 per cent in 1990, rising to 220 trillion lire at the end of the year. Foreign branches have also expanded their transactions with ordinary customers, although wholesale business still accounts for the lion's share.

The development of the lira markets

Though still small, the share of international financial transactions denominated in lire is growing. The lira denominated 1.2 per cent of the industrial countries' stock of bank assets at the end of 1990, compared with 2.8 for the French franc and 15 per cent for the Deutschemark. The increasing openness of the Italian financial system is nonetheless stimulating international use of the lira. Its wider use by foreign operators strengthens the competitive position of Italian intermediaries and facilitates their entry into international markets. In addition, portfolio diversification stimulates flows of investment towards Italy and the lira markets.

Investment choices are influenced not only by yields but also by the overall efficiency of markets. This is why the monetary authorities have constantly aimed at strengthening the structure of the Italian market, as a corollary to the process of exchange liberalization and financial integration in Europe. The complex and, as yet, incomplete process has engaged the authorities and operators for over a decade: the trading and settlement systems have been improved; the range of operators and instruments has been broadened; the recent law on securities firms provides the basis for a complete overhaul of the securities markets and for the development of futures and options trading; foreign demand for Italian government securities is growing, fostered in part by the lira's stability.

The laws on take-over bids and pension funds have still to be passed and the tax treatment of financial assets needs to be modified. At your convention last year there was considerable concern regarding the monitoring of residents' foreign investments for tax purposes. Data on Italian capital flows show that this concern was largely unfounded. On that occasion I drew attention to the need for a comprehensive approach to the taxation of savings in order to remove competitive inequalities. Rationalizing the taxation of finance is proving difficult for both Italy and the European Community.

Foreign investors' interest in lira securities increased following the activation of the new procedures for the refunding of tax under double taxation treaties. The long sought-after participation of foreign operators in the Italian market is thus increasing; but this must not obscure the fact that the prerequisite for international investors to play a lasting and fruitful role in the Italian financial system remains the maintenance of stable domestic monetary conditions.

* * *

I should like to end this address with a brief comment on the economic policy problems facing Italy. As the Bank already expressed its view on these issues on 31 May, I need not dwell long on them, but I should like to emphasize one aspect in particular.

In his Concluding Remarks the Governor, in recalling the contradictions that beset the Italian economy, stressed the urgent need to strengthen the monetary and exchange rate policy measures designed to achieve stability by adopting decisive complementary budget and incomes policy measures. Such action is indispensable to bring Italy's rate of inflation down to the lowest levels of our European partners: it is necessary to bring about a lasting reduction in real interest rates. These objectives enjoy wide support, including, I am sure, among those who, like yourselves, operate in the financial markets and stock exchanges.

As the Governor remarked, our economic systems are not condemned to the present levels of real interest rates. We hope that policies aimed at achieving stability will make it possible for the downward trend in real rates to become a global one, thereby encouraging a recovery of economic activity in the industrial countries and creating the conditions for further growth in international trade and investment.

Annex I

Italian portfolio investment: by branch of activity of the foreign issuer

(billions of lire)

	1987 (1)	1988 (1)	1989 (1)	1990 (2)
Investment				
Agriculture	1	1	8	10
Energy	839	698	1,109	1,559
Manufacturing	4,484	4,883	6,547	9,249
Transport and communications	416	1,305	1,562	2,055
Trade and other services	638	778	1,343	1,584
Banking and insurance	1,806	2,004	3,735	20,619
Financial firms	2,757	2,556	5,972	6,894
Public-sector agencies	7,724	21,685	32,087	62,244
Total	**18,665**	**33,910**	**52,363**	**104,214**
Disinvestment				
Agriculture	10	10	13	3
Energy	540	531	862	1,389
Manufacturing	3,712	3,924	5,775	7,106
Transport and communications	462	792	1,028	1,773
Trade and other services	586	730	1,101	1,614
Banking and insurance	1,559	1,776	2,580	12,698
Financial firms	2,722	3,904	5,289	7,443
Public-sector agencies	4,292	15,143	23,348	49,203
Total	**13,883**	**26,810**	**39,996**	**81,229**
Stocks				
Agriculture	21	2	1	9
Energy	166	663	667	893
Manufacturing	2,367	2,724	4,624	6,429
Transport and communications	378	1,003	976	1,198
Trade and other services	525	709	490	468
Banking and insurance	1,285	1,264	3,551	11,362
Financial firms	11,645	12,268	12,347	11,880
Public-sector agencies	5,189	13,266	25,755	38,889
Total	**21,576**	**31,899**	**48,411**	**71,128**

(1) Includes transactions completed without the transfer of foreign exchange. – (2) Excludes operations on bank accounts abroad.

Annex II

Italian portfolio investment: by branch of activity of the foreign issuer

(percentage composition)

	1987 (1)	1988 (1)	1989 (1)	1990 (2)
Investment				
Agriculture	..	..	..	..
Energy	4.5	2.1	2.1	1.5
Manufacturing	24.0	14.4	12.5	8.9
Transport and communications	2.2	3.8	3.0	2.0
Trade and other services	3.4	2.3	2.6	1.5
Banking and insurance	9.7	5.9	7.1	19.8
Financial firms	14.8	7.5	11.4	6.6
Public-sector agencies	41.4	64.0	61.3	59.7
Total	**100.0**	**100.0**	**100.0**	**100.0**
Disinvestment				
Agriculture	0.1	..	..	..
Energy	3.9	2.0	2.2	1.7
Manufacturing	26.7	14.6	14.4	8.7
Transport and communications	3.3	3.0	2.6	2.2
Trade and other services	4.2	2.7	2.8	2.0
Banking and insurance	11.2	6.6	6.5	15.6
Financial firms	19.6	14.6	13.2	9.2
Public-sector agencies	31.0	56.5	58.3	60.6
Total	**100.0**	**100.0**	**100.0**	**100.0**
Stocks				
Agriculture	0.1	..	..	..
Energy	0.8	2.1	1.4	1.3
Manufacturing	11.0	8.5	9.6	9.0
Transport and communications	1.8	3.1	2.0	1.7
Trade and other services	2.4	2.2	1.0	0.7
Banking and insurance	6.0	4.0	7.3	16.0
Financial firms	54.0	38.5	25.5	16.7
Public-sector agencies	23.9	41.6	53.2	54.6
Total	**100.0**	**100.0**	**100.0**	**100.0**

(1) Includes transactions completed without the transfer of foreign exchange. – (2) Excludes operations on bank accounts abroad.

Annex III

Italian portfolio investment: by country of residence of the foreign issuer

(billions of lire)

	1987 (1)	1988 (1)	1989 (1)	1990 (2)
Investment				
International agencies	4,295	11,281	21,039	46,153
France	669	1,974	2,236	4,450
Germany	2,793	4,558	3,540	4,936
United Kingdom	2,017	3,011	2,144	4,707
Luxembourg	1,428	717	1,141	5,961
Switzerland	322	491	2,517	3,596
Japan	1,090	2,715	3,432	6,824
United States	3,302	3,325	6,030	8,152
Other	2,749	5,838	10,284	18,471
Total	**18,665**	**33,910**	**52,363**	**104,214**
Disinvestment				
International agencies	1,960	6,108	10,352	32,048
France	554	1,856	3,552	3,512
Germany	2,334	3,837	4,303	4,550
United Kingdom	1,063	3,313	2,038	3,785
Luxembourg	1,677	2,115	2,456	3,683
Switzerland	209	261	1,699	1,495
Japan	903	1,993	2,771	3,523
United States	2,893	2,892	4,737	6,638
Other	2,290	4,435	8,088	21,994
Total	**13,883**	**26,810**	**39,996**	**81,229**
Stocks				
International agencies	3,748	8,851	21,156	35,458
France	576	955	1,041	1,840
Germany	1,366	2,344	2,032	2,448
United Kingdom	1,108	858	1,256	2,004
Luxembourg	9,591	11,078	10,458	8,371
Switzerland	1,517	360	1,183	3,029
Japan	401	1,354	2,041	5,045
United States	1,345	1,997	3,081	4,394
Other	1,924	4,102	6,163	8,539
Total	**21,576**	**31,899**	**48,411**	**71,128**

(1) Includes transactions completed without the transfer of foreign exchange. – (2) Excluding operations on foreign bank accounts.

Annex IV

Italian portfolio investment: by country of residence of the foreign issuer

(percentage composition)

PAESI	1987 (1)	1988 (1)	1989 (1)	1990 (2)
Investment				
International agencies	23.0	33.4	40.1	44.4
France	3.6	5.8	4.3	4.3
Germany	15.0	13.4	6.8	4.7
United Kingdom	10.8	8.9	4.1	4.5
Luxembourg	7.7	2.1	2.2	5.7
Switzerland	1.7	1.4	4.8	3.5
Japan	5.8	8.0	6.6	6.5
United States	17.7	9.8	11.5	7.8
Other	14.7	17.2	19.6	18.6
Total	**100.0**	**100.0**	**100.0**	**100.0**
Disinvestment				
International agencies	14.1	22.8	25.9	39.5
France	4.0	6.9	8.9	4.3
Germany	16.8	14.3	10.8	5.6
United Kingdom	7.7	12.4	5.1	4.7
Luxembourg	12.1	7.9	6.1	4.5
Switzerland	1.5	1.0	4.2	1.8
Japan	6.5	7.4	6.9	4.3
United States	20.8	10.8	11.8	8.2
Other	16.5	16.5	20.3	27.1
Total	**100.0**	**100.0**	**100.0**	**100.0**
Stocks				
International agencies	17.4	27.7	43.7	49.8
France	2.7	3.0	2.2	2.6
Germany	6.3	7.3	4.2	3.4
United Kingdom	5.1	2.7	2.6	2.8
Luxembourg	44.5	34.8	21.6	11.8
Switzerland	7.0	1.1	2.4	4.3
Japan	1.9	4.2	4.2	7.1
United States	6.2	6.3	6.4	6.2
Other	8.9	12.9	12.7	12.0
Total	**100.0**	**100.0**	**100.0**	**100.0**

(1) Includes transactions completed without the transfer of foreign exchange. – (2) Excluding operations on foreign bank accounts.

Statement by the Deputy Director General, Antonio Fazio, on the Finance Bill for 1992 to the Budget, Treasury and Planning Committees of the Senate and the Chamber of Deputies

Rome, 10 October 1991

In these remarks I intend to highlight some of the underlying trends at work in the Italian economy as regards international competitiveness and the financing of the public debt. The correction of these trends will require structural intervention in the field of public finances.

1. Italy in the international economy

Between 1979 and 1985 the average annual rate of growth in GDP was 2.3 per cent in the OECD countries and 2.0 per cent in Italy, while between 1985 and 1991 the figures were respectively 2.9 and 2.8 per cent.

The real expansion of the Italian economy was thus somewhat slower than that of the other industrial countries in the first period and in line with the average in the second.

Between 1979 and 1985 the average annual rate of consumer price inflation in Italy was twice the OECD average – 14.2 per cent as against 7.3 per cent. The differential was much smaller between 1985 and 1991, with Italy averaging 5.6 per cent compared with a rate of 3.9 per cent in the OECD countries.

Italy's trade in goods and services was nearly in equilibrium in 1978-79. The balance recorded sharply rising deficits in the period up to 1985 as a result of the second oil crisis but was again close to equilibrium in 1986; since then it has worsened steadily, albeit not seriously. In 1990 the deficit on current account amounted to 17.3 trillion lire, or 1.3 per cent of GDP. The deterioration was held in check by an improvement in the terms of trade, but at the same time it was exacerbated by a progressive increase in the deficit on food and agricultural products. At constant prices there was a sizable and growing deficit from 1983 onwards.

The increase in domestic costs and prices, which was only partially offset by depreciation of the lira, led to a loss of competitiveness of 5 per cent between 1982 and 1986 and 7 per cent in the following years; it was particularly marked in the case of manufactures.

The deficits recorded in the eighties caused Italy's net external debt to rise. In 1986 it amounted to barely 13 trillion lire, the balance between foreign credits worth 249 trillion lire and debits totaling 262 trillion. In the same year the net outflow of investment income was 9.3 trillion lire. In 1990 the net debt stood at 95 trillion lire and the deficit on investment income was 16 trillion lire.

The growth in the world economy in 1991 has been slower than forecast. World demand for manufactured goods, which expanded by 5 per cent in volume in 1990, rose at an annual rate of 1.6 per cent in the first six months of this year. Signs of a recovery have been evident during the year, but there is still considerable uncertainty as to its strength and durability.

These developments on the international front have checked the growth of the Italian economy.

2. Cyclical developments and monetary policy

According to the latest estimate by the Budget Ministry, GDP growth will amount to 1.4 per cent at most in 1991, compared with the original forecast of 2.7 per cent. A year ago investment was expected to increase by 4.4 per cent in real terms, but the Ministry now estimates that it will show no growth.

During the first six months of this year the index of industrial production fluctuated around its end-1990 level, which was 4 percentage points lower than at the end of 1989. The market services sector performed slightly better.

The twelve-month rate of consumer price inflation peaked at 6.9 per cent in July; it may fall below 6 per cent by the end of the year, giving an average annual rate of 6.5 per cent. The target for the year was 5 per cent; instead of narrowing in 1991, the inflation differential vis-à-vis the other ERM countries will therefore widen slightly.

The causes of this divergence are domestic. According to the Budget Ministry's estimates, the prices of imports of goods and services will be 1 per cent higher, reflecting the firmness of the lira, while the GDP implicit price deflator will rise by 6.8 per cent (in 1990, import prices rose by 3 per cent and the GDP deflator by 7.5 per cent). Labour costs in the private sector are rising at an annual rate of around 8 per cent, nearly twice as fast as in France and Germany. The prices of services not exposed to international competition continue to increase by more than the average.

Industrial enterprises have benefited from the near-stability of the cost of foreign inputs but are feeling the effects of the rising domestic costs of both labour and services. In the first six months of the year the increase in producer prices on an annual basis of around 2.8 per cent did not prevent a narrowing of firms' profit margins.

The trade deficit in the first eight months of the year was 2 trillion lire larger than in the corresponding period of 1990. In the first six months exports were unchanged in volume terms compared with the previous year, while imports rose by 2.3 per cent. The estimates for the year published in the Government's Forecasting and Planning Report indicate a current account deficit equal to about 1.2 per cent of GDP.

Demand for credit remained brisk, reflecting both a fall in corporate self-financing and the build-up of stocks of finished goods over the past two years. The growth in lending to firms in the services sector, including financial services and consumer credit, was particularly rapid. Between January and August lending to the non-state sector increased at a seasonally adjusted annual rate of 14 per cent, compared with 15.4 per cent in the whole of 1990. The original target for this aggregate was 10 per cent. One factor contributing to the overshoot was the sizable growth in short-term bank loans in foreign currency to resident firms after the removal of the reserve requirement on net foreign currency fund-raising on 12 May. These loans offset the smaller inflows of other types of capital and the larger volume of foreign investment by residents.

In the first eight months of the year net inflows of capital, including the bank borrowings referred to above, amounted to 27.5 trillion lire, compared with 42.9 trillion in the corresponding period of 1990.

The state sector borrowing requirement up to the end of September totaled 104 trillion lire, a 21 trillion lira increase on the first nine months of 1990. The additional budgetary measures adopted in the spring were intended to reduce the requirement by 12.6 trillion in the latter part of the year as a result of increases in revenue and expenditure cuts. By July it was clear that the borrowing requirement would be higher than envisaged in the autumn of 1990, owing mainly to shortfalls in central and local income tax revenues and in the yield from the revaluation of corporate property. Another factor depressing tax revenues was the slower than expected growth in GDP.

The Government's Forecasting and Planning Report estimated that the state sector borrowing requirement for the year would amount to 141 trillion lire, equal to 10 per cent of GDP. The target set for this aggregate in September 1990 was 132 trillion. The figure given in the Report takes account of the effects the May measures would have in the last quarter, as well as asset sales totaling 5.6 trillion and additional budget measures designed to reduce the balance to be financed this year. To some extent these measures will cause a deterioration in the accounts in 1992.

The unexpectedly rapid expansion in credit to the private sector and the additional borrowing requirement will not affect the growth in the monetary component of financial assets, which is forecast to remain within the 5-8 per cent target range for the year. In the first eight months the seasonally adjusted increase amounted to 6.5 per cent on an annual basis.

Compliance with the target for monetary growth, notwithstanding the overshoot in credit to the private and public sectors, was achieved as a result of substantial sales of government securities to households and enterprises. The deficit of 104 trillion lire over the first three quarters was funded principally by securities issues (94 trillion lire), mainly at medium and long term, and by foreign borrowing (6 trillion lire). Gross issues of government paper totaled 613 trillion lire over the period, 66 trillion more than in the first nine months of last year.

In summary, the total financial assets of households and enterprises should increase by about 11.5 per cent in 1991, compared with 11.9 per cent in 1990. The monetary component is likely to increase by about 7 per cent and the non-monetary component by 15 per cent. The large volume of securities issues was placed at declining interest rates, which also made it possible to issue a larger proportion of fixed rate paper.

The general decline in interest rates was endorsed by a reduction in the official discount rate from 12.5 to 11.5 per cent in May. The yields on Treasury bills and medium and long-term government paper rose appreciably during the summer, first in connection with the shortfall in tax revenues and then in response to the announcement of higher interest rates in Germany. Interest rates began to fall again in September, but have not yet returned to the levels registered in the first half of June.

The short-term interest rate differential vis-à-vis Germany, which was about 4 percentage points before the lira joined the narrow fluctuation band of the EMS, now stands at around 2.5 points.

The effective exchange rate of the lira against the other ERM currencies declined by 1 per cent between January 1990 and August 1991. Against the currencies of all Italy's trading partners the rate was 1.8 per cent lower over the first eight months of 1991 than in the corresponding period of 1990.

These achievements in terms of controlling monetary growth, marketing government securities and managing interest rates and exchange rates were facilitated by the reforms and structural improvements in the money and financial markets in recent years and by the increasing confidence that Italian and foreign investors are therefore showing in the markets in view of their orderly operation. The greater depth of the market is revealed by the fact that very-short-term interest rates varied over a range of 3 percentage points between September 1990 and March 1991, to meet the needs of money supply control; yields on medium and long-term securities fluctuated by less than half a percentage point.

The screen-based secondary market in government securities and the interbank deposit market deepened appreciably. Turnover in the former trebled between 1990 and 1991, reaching 148 trillion lire in September. Most of the growth was in fixed rate securities.

The mobilization of part of banks' compulsory reserve deposits (the proportion will be raised from 3 to 5 per cent on 15 October) has had a positive effect on the efficiency and size of the interbank market and drastically reduced the volatility of short-term rates. Interbank rates are now a firmer point of reference for the conduct of monetary policy, for the setting of interest rates on both short and long-term government paper and for the rates banks charge their customers. However, the development of the interbank market continues to be impeded by the 30 per cent withholding tax on gross interest income on deposits, a provision without parallel in other countries.

3. The public debt and the Finance Bill

In the light of the foregoing analysis, it is possible to identify the macroeconomic policy objectives to be assigned to monetary and fiscal policy.

In view of the cyclical state of the economy, reducing the inflow of goods and services by further restricting domestic demand is not an option.

The economy must improve in competitiveness and efficiency.

In a system of flexible exchange rates, a structural balance-of-payments deficit would tend to be reflected in higher inflation. Given the current pattern of exchange rates and the ease of access to external finance, competitive weaknesses are reflected in a slow but steady erosion of the productive base and of employment, especially in industry. Competitiveness also impinges directly on services, where Italy's balance of payments is now in structural deficit. Some current account items, such as tourism, have received a temporary boost from unhappy events in neighbouring countries.

Interest rate levels, the management of the public debt, and the operations and reforms in the money market have made it possible to keep the rate of expansion of the most highly liquid component of financial assets in line with that of GDP.

Real interest rates on the public debt in Italy are on a par with those in other industrial countries. From 1986 to 1990 the average real yield on government securities was 5.24 per cent in Italy, 5.87 per cent in France, 5.33 per cent in Germany, 3.90 per cent in the United States and 3.68 per cent in the United Kingdom.

The structural problems of Italy's public finances are reflected not only in the total volume of debt – which is very large in proportion to GDP – but also in its maturity structure.

The average residual maturity of the public debt reached a peak of three years and four months at the end of 1985, but then shortened steadily to two years and five months at the beginning of 1991. A large volume of longer-term issues this year and limited recourse to Treasury bills raised the average to two years and eight months in September. In 1989 the residual maturity of the public debt was 4.1 years in France, 10.2 years in the United Kingdom and 6 years in the United States. The average interest rate on the public debt in Italy thus applies to paper with a shorter average maturity, much of it at floating rates.

In 1990 gross issues of government securities in Italy amounted to the equivalent of 57 per cent of GDP. The corresponding figures were 10 and 7 per cent in France and Germany respectively and 32 per cent in the United States.

The situation I have portrayed makes monetary management especially delicate and inevitably also affects the cost of debt servicing to some extent. It has been tackled by making the structural improvements in the financial markets I have already described.

The solution to the problem of Italy's public debt must include measures to achieve a budget surplus net of interest payments, which would make it possible to reduce the relative burden of the debt, and, more immediately, others to lengthen its average maturity.

* * *

The situation calls for a strategy for the structural adjustment of the public finances.

The overall ratio of tax revenue to GDP in Italy is not particularly high compared with the average for the other European countries. Nevertheless, it is hard to imagine any further increase in the rates of payroll and profits taxes; the rates in Italy, especially those on financial intermediation and savings, are higher than in other major European countries.

The first requirement is therefore that the tax authorities continue to combat the worst forms of evasion and to rationalize tax regulations.

In a framework of fixed exchange rates, in which circumstances may make it necessary to curb domestic consumer demand and stimulate investment, it is advisable to retain some scope for discretionary action in this area.

The tax authorities' aim of rationalizing a series of minor levies and increasing the revenue from them, as set out in the Finance Bill, appears to be a worthy objective.

The main areas in which measures should be taken to achieve a permanent reduction in the rate of growth in expenditure are those of pensions, public sector wages and salaries, the health service and the local authorities.

The objective of keeping the increase in the gross earnings of public employees in line with the inflation target of 4.5 per cent is especially important. Their earnings increased by 15 per cent in 1990 and will rise by a further 9.2 per cent this year, to about 180 trillion lire.

In the absence of specific countermeasures, expenditure on wages and salaries could rise by at least a further 14 trillion lire in 1992, whereas limiting the increase to about 4.5 per cent would cut the additional cost to the Treasury to about 8 trillion lire. Such action would be beneficial in itself in terms of reducing public expenditure, but it would also have much broader significance and would be acceptable if it were seen to be part of a general incomes policy applicable to other types of government spending as well, and above all to the private economy.

Expenditure on pensions, which falls directly or indirectly on the government budget, grew to 180 trillion lire in 1990 and is expected to rise by 12 per cent to 201.6 trillion in 1991. If no action is taken it will increase by a further 10 or 11 per cent in 1992.

The state of the pension system is one of the fundamental causes of Italy's budget disequilibrium. The pension entitlement criteria were established some time ago when projected rates of economic growth were higher than can now be realistically expected for the decades to come.

Disequilibria in public pension funds are, or have been, a cause of structural budget difficulties in most industrial countries, many of which are more prosperous than Italy, although some also have a higher proportion of old people. The proportion is rising perceptibly in Italy too; moreover, the ratio between average life expectancy at retirement and average length of working career is particularly high in this country.

It seems imprudent to promise younger workers retirement benefits that the public pension system will be unable to sustain for macroeconomic reasons. Eliminating or at least reducing the deficit in this important area of the public finances would appear to be essential to underpin the value of the public debt.

The solution lies in shifting part of the burden to supplementary, private pension plans run on a funded basis and enjoying tax incentives. It should be noted that during the transitional period the burden on the public pay-as-you-go system could increase, as the benefits it disburses are predetermined whereas contribution revenue would presumably diminish.

The ratio of national health service expenditure to GDP is broadly in line with that of other industrial countries, except the United States, where health care is mostly provided privately, and the United Kingdom, where the ratio is much lower. However, health spending is rising very rapidly in Italy; this year it will be some 33 per cent higher than in 1989 and the ratio to GDP will be 6.6 per cent, as against 5.8 per cent. Moreover, the imbalance between the cost of the service and its quality and availability is more pronounced than in other public services in Italy. Eligibility for public health care needs to be reviewed, as well as the way in which such services are financed. At least part of the cost will have to be borne by patients with higher incomes. The Finance Bill takes a significant step in this direction. Here too, the possibility of private insurance schemes should be examined.

* * *

The Bill provides for spending cuts and additional revenue totaling 55.5 trillion lire, which should reduce the Treasury's borrowing requirement from the 141 trillion lire expected this year to 128 trillion in 1992.

The revenue and expenditure figures given in the budget are based on a forecast of 2.5 per cent growth in GDP. This is realistic only if international economic activity picks up and Italian exporters are able to take advantage of the recovery in world trade. In addition, a pronounced turnaround in investment is essential.

Tax revenue would be reduced if economic activity were weaker than predicted.

The Government expects inflation to slow down sharply in the course of 1992. At the end of this year the twelve-month rise in consumer prices will be 2.3 percentage points higher than the 4.5 per cent annual average set as the target for 1992. If this target is to be met, prices must not rise by more than 1 per cent per quarter, compared with the average of 1.4 per cent per quarter recorded this year.

This appears to be possible only if an incomes policy is adopted that holds the annual rise in unit labour costs to around 4.5 per cent and if the policy is immediately reflected in producer prices. Moreover, there must be no additional inflationary pressure from profit margins in retailing or from the service sector.

In the very short run, faster inflation would compensate for slower economic growth. However, not only would this signify the failure of the disinflation policy, it would also lead sooner or later to an acceleration in other government expenditure, including interest payments.

A significant portion of the additional revenue foreseen in the Finance Bill is non-recurrent. The sale of government assets obviously does not alter the underlying trend of current revenues, even though similar disposals can be carried out in future years. These are revenues on capital account, which reduce the public debt by a corresponding amount.

The importance of disposals should be judged by their impact on the social rate of return of the assets sold and their contribution to the improved organization of the productive economy.

The tax revenue generated by the revaluation of corporate assets is also exceptional and should be viewed in the light of the current and prospective profitability of the sectors involved.

It has been calculated that 12 trillion of the 21.5 trillion lire in additional revenue will come from the income tax condonation. By the very nature of the revenue, these receipts are very uncertain, leaving considerable doubt about the overall figure. The real question is whether the condonation will effectively expand the future tax base. If not, it will prove to have been inadvisable and of doubtful usefulness.

Finally, the forecast expenditure for interest on the public debt is consistent with the planned sharp slowdown in inflation.

4. Conclusions

The Italian economy is losing competitiveness by comparison with other industrial economies. Between 1985 and 1990 imports expanded by 44 per cent in real terms, exports by only 27 per cent.

Exchange rate stability and increasing financial integration have encouraged an inflow of foreign capital, and have thus obscured the binding constraints imposed by the balance of payments. These nevertheless remain, although perhaps with a longer time frame.

Italy's net external debt rose to 117 trillion lire in mid-1991, with a further increase in net outflows of investment income. This compounds the trade deficit.

As it is hardly conceivable to curb domestic demand in order to achieve a current account surplus, adjustment must be sought by restoring Italy's international competitiveness. First and foremost, this must involve private initiative, research and development and investment in the productive economy. Since exchange rates are fixed, regaining competitiveness will also require a slowdown in incomes and prices, at least to the rate of increase recorded in Italy's trading partners.

Monetary policy is committed to exchange rate stability and to the non-monetary financing of the public debt.

The Finance Bill for 1992 contains the first elements of an incomes policy for the public sector. It is not inconsistent with efforts to improve productivity in that sector. However, its full benefits can be realized only if it is extended to other important expenditure items – the pension and health systems, above all – and if a similar policy is applied in the private sector as well.

If that were the case, incomes policies would entail at worst marginal costs for the groups affected, but would produce benefits for the entire community in terms of price stability and sustained economic growth.

Excluding one-off measures, the expansion in government revenues is very modest, around 4 per cent, assuming faster real economic growth in 1992 and attainment of the inflation target. The smallness of the increase is the result of past policies of bringing tax collection dates forward and introducing one-off tax-raising measures.

The non-recurrent revenues budgeted for 1992 are important for stabilization purposes, in that they will reduce the Treasury's borrowing requirement, but they are only marginally relevant to the problem of permanently increasing tax revenues.

The authorities are forced to cope with a continual increase in gross issues of government paper, which are now equivalent to more than half the GDP each year. Considerable progress has been made in improving the working of the money and financial markets, enabling the Treasury to sell this very large volume of paper in the market while keeping money supply growth in line with the increase in nominal GDP. Real interest rates have not differed greatly from those found in other countries.

The outlook for the public finances leads savers to prefer short-term securities.The average maturity of the public debt is much shorter than in the other leading countries.

The primary task of financial legislation – spending and tax measures – and of incomes policies is to influence the medium-term prospects for competitiveness and economic growth.

Privatization: a Comparison of the Experiences of Six Countries

Statement by the Deputy Director General, Tommaso Padoa-Schioppa, to the Joint Parliamentary Committee on the Restructuring and Reorganization of Industry and on the Plans of the State-controlled Companies

Rome, 16 October 1991

1. Introduction

In dealing with the subject set for this hearing ("The development of the relationship between the public and private sectors within the context of overall competitiveness in the United Kingdom, France, Germany, Sweden, Hungary and Czechoslovakia"), I shall distinguish between the main elements involved in the privatization process, namely: ascertainment of the initial conditions of the economy, identification of the objectives to be pursued, provision of an appropriate legal and institutional framework, the means of achieving the objectives, and the effects on the public finances. I shall use these different elements to examine the most significant instances of privatization in the six European countries indicated in the title of the preliminary study carried out by the Joint Committee.

I shall devote some time to considering the European Community's rules affecting privatization and the behaviour of public enterprises, rules to which existing and aspiring member states of the Community must pay increasing heed.

In reviewing the six countries' past and present experiences and their further privatization plans, it will be necessary from time to time to distinguish between the four Western European countries (France, Germany, the United Kingdom and Sweden) and the two Central European countries (Czechoslovakia and Hungary). There are two main reasons for this: the contrast between the two groups of countries as regards the size of the public sector, and the pronounced difference in their legal, institutional and economic frameworks, particularly the absence of a market system in the Central European countries. These two factors mean that privatization takes on a completely different significance in the two areas.

The documentation currently available on privatization is not sufficiently homogeneous and complete for entirely satisfactory comparisons to be made. We have nevertheless attempted to produce an adequate comparative analysis for this presentation.

2. Privatization: the meaning of the term

The private or public nature of ownership is established by reference to the agent who has the right to operate the enterprise in any way not prohibited by contracts or legal provisions. The two conventional forms of private and public enterprise are therefore respectively the firm run directly by one or more private proprietors or by managers appointed by them, and the enterprise managed by public officials answerable to organs of the state administration.

The distinction between the two forms of ownership is more blurred if one considers the effective exercise of control over the operation of the enterprise.

"Public" and "collective" are not synonymous, nor are "private" and "individual". The public may, in fact, be prevented from exercising any control or direction over a public enterprise. Cooperative societies and pension funds are examples of ownership that is both private and collective.

The term "control" itself covers a multitude of functions and prerogatives. The organizational structure and mechanisms for delegating powers within the enterprise give different individuals responsibility for decisions affecting different areas of activity: the siting of investments, acquisitions and disposals, prices, the volume of production, financial management and the selection of managers. Moreover, in every enterprise, public or private, the prerogatives of ownership are limited by public rules and regulations – environmental requirements affecting investment decisions, technical rules and product standards, a web of rights and obligations in the labour market, rules to safeguard competition in many fields of activity. In particular, the owner of a large enterprise with a natural monopoly or producing public services may be subject to such stringent official constraints that his scope for decision-making is greatly circumscribed, even if he is a private individual.

In a widely held public company with no dominant shareholders or organizations to exercise shareholders' rights, decisions that are the prerogative of the proprietors tend to be taken by the management, which will be subject to the closest scrutiny not from the company's owners but from the market, creditors, customers or suppliers, as the case may be.

Despite these qualifications, the distinctive characteristic of a private sector company is still the fact that, once legal requirements have been complied with, the right to control the company rests with a private person, even if that right is exercised only in the power to delegate responsibility or, as in the case of a publicly quoted company, is no more than a potential right. It is therefore with reference to the exercise of this "residual" right that it is appropriate to define the concept of privatization.

To some people, privatization means any initiative aimed at reducing public sector involvement in the ownership or management of an enterprise. This interpretation covers sales of minority interests in public enterprises to private investors, steps to make the guidelines for the behaviour of the administrators of public enterprises more comparable to those for owner-managers, requirements for administrators to manage enterprises in accordance with criteria of profitability, deregulation of some aspects of enterprises' activities, recourse to the market to purchase goods or services previously produced by the enterprise itself. Although limited in scope, these extensions of a private sector logic to the public sphere may lead to significant changes in the behaviour of nationalized enterprises. In examining the experience of other countries, however, I shall make only passing reference to these forms of "partial" privatization; a systematic comparison has to be based on a definition of privatization that is both more clearly delineated and closer to that used by the countries considered. In the remarks that follow, by privatization I shall therefore mean the sale of the (residual) rights of control, in other words the sale of a majority interest in an enterprise, by the public sector to private investors.

3. Initial conditions

Privatization policies, whether applied or only formulated, have been profoundly influenced by certain "initial conditions": the nature of the economy, the size of the public sector within it, the level of development of the financial markets, and the state of the public finances.

3.1 *The economic system*

For the six countries considered, the main difference in the initial conditions is qualitative, and relates to the very nature of the economic system. Until recently, the organization of production and trade in the Central European countries was determined by centralized planning of the use of resources. The institutions allocating resources, including the banks, were subordinate to the planning bodies and did not know the disciplining effect of competition; competition is normally absent even in sectors producing consumer and capital goods, and the system of prices is not the outcome of supply and demand meeting in a marketplace, however imperfect.

In the Western European countries, by contrast, the main economic interaction between different firms and between firms and consumers is the result of decentralized decisions; it makes use of communication and transport systems appropriate to the complexity of the productive specialization of firms and is governed predominantly by private law. Nevertheless, even among these countries the conditions prevailing before the start of the privatization process differed in many fields: the level of development of social services, legal traditions, the type and distribution of share ownership, the competitiveness of markets, the relative importance attached to various welfare objectives, and the role of supply-side and stabilization policies.

3.2 *The size of the public sector*

The relative size of the public sector appears to differ greatly from one country to another. As one would expect, it is largest in the two Central European countries. In *Czechoslovakia* the public sector produced more than 97 per cent of total output in 1988. The proportion was between 85 and 90 per cent in *Hungary*.

The public sector is far smaller in the market economies of Western Europe than in the former socialist countries, although even here the differences in size are substantial. In 1982, the year before the major changes in ownership, the state's involvement in the economy was greatest in *Sweden*, where the public authorities still provide a substantial volume of services; the public sector accounted for 38 per cent of total employment, compared with just over 25 per cent in *Germany*. State-owned companies employed around 14 per cent of the total workforce in the economy excluding general government. Similar figures were recorded in *France* and *Germany*. It should be noted that a considerable proportion of public enterprises belong to local authorities rather than central government, especially in *Germany*. The highest ratio was recorded in the *United Kingdom*, where public enterprises employed around 18 per cent of all employees. It should be remembered that after the wave of privatizations the *United Kingdom* has one of the smallest public sectors in Western Europe.

3.3 *The level of development of the financial markets*

The level of development of the financial markets is the third important factor. In 1982 the *United Kingdom* had the largest equity market among those examined; the market capitalization of quoted companies was equivalent to 39.6 per cent of gross domestic product. In *Sweden* the ratio was 21.7 per cent. The stock markets of *Germany* and *France* were much smaller, with market capitalization equal to 10.6 and 6.2 per cent of GDP respectively. Stock exchanges were recently established in *Czechoslovakia* and *Hungary*, but it will be some time before they are of any real economic significance.

3.4 *The state of the public finances*

In some cases, the state of the public finances added urgency to the privatization programmes. The ratio of public debt to gross domestic product in 1982, in other words before the start of privatization, was 62 per cent in *Sweden* and almost 53 per cent in the *United Kingdom*; in the same year it was around 40 per cent in both *France* and *Germany*. The size of the gross foreign debt in convertible currencies gives an indication of the scale of the financial problems facing the Central European economies; in *Czechoslovakia* it amounted to more than 16 per cent of GDP in 1991, while the corresponding figure for *Hungary* was over 64 per cent.

4. The objectives pursued

4.1 *In Western Europe*

In the Western European countries considered here, two functions are traditionally assigned to public enterprises: 1. to achieve macro-economic or social objectives: stabilization of the economic cycle, support for employment, income redistribution; 2. to remedy situations in which the market appears unable to produce the desired results ("market failures" in economic parlance): in the production of public goods (justice, defence, the environment, etc.), in research and development, in the selection of projects whose benefits cannot be completely "internalized" or which require finance that cannot be obtained in the market.

As to the first function, in the last fifteen years there has been a growing conviction in many countries that the direct control of supply - in other words, the public ownership of enterprises in manufacturing or other sectors - is an inefficient and ineffectual way of attaining such objectives. This has given considerable momentum to privatization plans.

With regard to the second function, many countries resorted to privatization when it was felt that public ownership was a less efficient way of correcting market failures than measures to regulate or control private enterprises.

Where it was decided to keep enterprises in public ownership, measures were taken to increase competition and strengthen the incentives within the public sector by deregulating or liberalizing markets, abolishing legal monopolies, changing the criteria for rewarding public sector managers and introducing an obligation to earn an adequate return on capital. In addition, the regulation of firms with a natural monopoly or producing public utility services was strengthened. Despite its costs and limitations, such action was necessary, as the incentive to operate efficiently that normally springs from actual or potential competition and the threat of take-over barely operates in these cases.

4.2 *In Central Europe*

In the Central European countries too, the main objective of privatization is to increase the efficiency of the economy. This objective cannot be achieved simply by enlarging the private area of the economy, however; it requires first and foremost a radical reform of the regulations governing society and the means of producing wealth. In these countries privatization means creating the possibility of private, individual ownership. In economies where private ownership was and still is uncommon, limited to small enterprises and hamstrung by the absence of property rights, privatization is seen today as a means of creating a market economy. In their efforts to rebuild an economy based on property ownership and private enterprise, *Czechoslovakia* and *Hungary* are giving priority to the definition of property rights, the creation of legal instruments to protect them and the establishment of adequate courts to enforce them.

5. Legal and institutional changes

5.1 *In Western Europe*

In all of the countries examined, new legislation to modify the legal and institutional framework was required to permit disposals of public assets.

In *France*, where the Constitution requires legislation before privatizations can be carried out,[1] Parliament passed a law in 1986 establishing a list of firms to be privatized entirely, the criteria for defining categories of public enterprises for which the Government was empowered to proceed with total or partial privatization, and the manner in which the proceeds of privatization were to be used.

In *Germany*, where public enterprises frequently take the form of private law companies, before unification the responsibility for privatization was vested in the Government, with the Minister of Finance having a power of veto. Legislation was passed in only one case (VEBA) in conjunction with measures to encourage wider share ownership. After unification the privatization of public enterprises in the former GDR was delegated to the *Treuhandanstalt* under the *Treuhandgesetz*, which came into force in July 1990.

In the *United Kingdom*, separate Acts were passed to change the legal status of certain public corporations and modify the regulatory framework within which they operate (abolition of the legal monopoly).

In *France* and the Eastern regions of *Germany* an authority with responsibility for privatization was set up.

In *Sweden* the partial privatizations were carried out by the Government. However, the programme of further divestment announced by the new Government in September will be the subject of a special law.

In some cases, privatization has necessitated amending tax laws. In *France*, for example, tax concessions have been accorded to certain classes of subscriber. Legislation also had to be passed in the *United Kingdom* to establish special rights to be retained by the state.

It has proved essential to give maximum publicity and transparency to the valuation of the enterprise being privatized. Without rules on take-over bids, legislation to protect competition, a ban on insider trading, a transparent stock market and company law that protects the interests of minority shareholders, it would have been difficult to attract subscriptions for shares representing a small part of the total share capital. Some of the countries introduced new laws and regulations to govern these matters or strengthened those that were already in place (in *France*, for example, with regard to the protection of competition).

In the case of partial privatization, the problem of how to provide incentives for private minority shareholders arose again with added urgency. In particular, the legal protection for the interests of small shareholders and the existence of intermediaries able to gather voting proxies in order to exercise minority rights proved essential to the success of privatizations carried out via the market by means of public offerings of shares.

5.2 *In Central Europe*

It would be misleading to regard the process of privatization in *Czechoslovakia* or *Hungary* as a far larger version of what has happened in the United Kingdom or France.

In these countries the absence of a market in the full sense of the word is both the primary motivation for privatization schemes and the greatest obstacle to their implementation. The transfer of "property rights" from the state to private persons is not itself sufficient to produce the benefits of a market system. The prerequisite for initiating the process of privatization is far-reaching reform of the entire regulatory machinery, not just privatization legislation. The courts are being given powers over economic matters and at the same time the organization of the credit and financial intermediaries is being overhauled; the reforms include the creation of infrastructures and the provision of business services, the liberalization of the system of price formation and any other measure designed to create a system of decentralized economic decision-making.

In most cases, the chosen method is to guarantee the validity of property rights; enabling individuals to enjoy the fruits of their labour creates the best incentives for efficiency and for the individual to contribute to the collective good, which are insufficiently strong in a system based on collective ownership. This aspect has to be settled even before deciding *to whom* property rights should be transferred: whether to savers, to the employees of the firms themselves, to the local community, or to the former owners in pre-communist days. The success of privatization will hinge largely on the initial allocation. Compliance with minimum criteria of equity is essential in order to secure consensus, without which the new system would be neither stable nor sustainable over the medium term owing to an unavoidable degree of arbitrariness. Moreover, an allocation of property that necessitated major adjustments but did not immediately maximize incentives and stimulate efforts to achieve efficiency would have adverse consequences for the entire economy, partly owing to the lack of efficient property markets, in other words mechanisms whereby property can be transferred.

6. Methods of asset disposal

6.1 *In Western Europe*

6.1.1 *The assets involved.* – In all four countries, the extent of privatization depended on the relative size of the public sector. In the *United Kingdom* privatization operations have been carried out in all fields of public ownership. In *France* they have been limited to enterprises in the manufacturing and services sectors, especially banks. With rare exceptions, the operations carried out in *Sweden* and the Western regions of *Germany* have been partial; in *Sweden* they have involved only industrial firms, while in *Germany* they have also extended to some parts of the services sector (air transport, banking). In the Eastern regions of *Germany*, by contrast, the current privatization programme covers all sectors of the economy; the operations that have already been completed have concerned small service enterprises, industrial firms and some banks.

In the *United Kingdom* the Government has privatized state-owned real estate, energy extraction rights, public enterprises in the manufacturing and services sectors (including some banks), public utilities in the energy sector, and transport, telecommunications and water companies. The state's total receipts from privatization have exceeded £ 28 billion, equal to 9 per cent of GDP.

In *France* the list of enterprises for privatization by 1991 included, among others, Renault and the steel companies; numerous disposals were planned in the insurance and credit sectors. The plan came to an abrupt halt after the stock market crisis of October 1987 and the presidential and parliamentary elections of 1988. By that time around one third of the programme had been implemented; more than one thousand firms had been privatized, yielding more than FF 80 billion, equal to just under 2 per cent of GDP. Since then, some fairly large privatization operations have been carried out – sometimes by the same group, as in the case of Pechiney International and American National Can – and exchanges of shares have been agreed, such as that between Renault and Volvo.

In *Sweden* the partial privatizations and rare complete sales of companies have produced modest proceeds on the order of SKr. 4-5 billion, equivalent to between 0.5 and 0.6 per cent of GDP. Nevertheless, the new operations now being launched will be much more substantial (worth around SKr. 30 billion) and will involve the large industrial firms grouped together in the new state holding company Fortia.

In *Germany* the largest privatization operations have included the sale of the state's controlling interest in Volkswagen and the reduction in its shareholding in Lufthansa. The receipts amount to more than DM 10 billion, equal to around half the state's previous shareholdings and equivalent to about 0.6 per cent of GDP. By July 1991 the *Treuhandanstalt* had disposed of about 17,000 enterprises in the services sector (retailing, restaurants and hotels) and 3,000 industrial firms, with a value of more than DM 11 billion.

6.1.2 *Privatization techniques.* – The techniques of public divestment have been no less varied than the types of enterprise sold. The choice of method was influenced by three factors: the predominant objectives of the privatization programme, the legal and institutional framework, and the depth and structure of the financial market.

The choice of the method of divestment is dictated largely by the initial decision as to the objectives, including the type of ownership structure it is hoped will emerge as a result of the operation. If several objectives are being pursued simultaneously, they may be mutually reinforcing, as with the widening of share ownership and the development of the financial markets. On the other hand, they may conflict with one another; for example, the aim of maximizing the proceeds from the operation may not be attainable if conditions are placed on the operation of the enterprises, such as safeguards for employment or restrictions on the transfer of the shares. Analysis of the procedures adopted in the various countries reveals to some extent the true importance attached to the declared objectives.

In the *United Kingdom* and *France* and to a lesser extent in *Germany* before unification, the extensive recourse to the stock market demonstrates the genuine desire to widen popular participation in the risk capital market. Similarly, the sale of part of an enterprise's share capital to its employees, generally at a preferential price, indicates that in these countries and in *Sweden* the authorities wished to increase the workers' interest in the performance of their company, in accordance with a line of thinking similar to that of the advocates of profit sharing.

France differed in some respects from the *United Kingdom* and pre-unification *Germany* in placing more restrictions on purchasers' medium-term production plans; it also kept control over important decisions for five years by retaining a "special share" (*action spécifique*) and sold a controlling interest to French companies approved by the Government;[2] this indicates that maximization of the proceeds of the sale was not the absolute priority in the Government's privatization plans.

The method most widely used in the Eastern regions of *Germany* was sale by private treaty, in the case of small enterprises mainly to residents of the provinces themselves. This choice indicates that the creation of a new class of entrepreneurs in the Eastern Länder takes precedence over other objectives. In *France* too, the frequent decision to sell controlling blocks of shares to groups of selected companies, subject to various restrictions on their resale, indicates that a further aim was to prevent instability in the ownership of the enterprises, and hence in their operations, for a limited period.

6.1.3 *Placement in the capital market.* – The chosen method of privatization must be compatible with the firm's characteristics and with the sector in which it is engaged, but above all with the structure of the national capital market. Experience in *France*, the *United Kingdom*, *Sweden* and *Germany* (both before and after unification) shows that several instruments are needed and that they must be flexible. For example, extremely large public offers for sale cannot be launched if the capital market is not sufficiently organized and able to digest the issue volume; in such cases it is better to arrange direct sales to interested purchasers, either by auction or by private treaty.

The *United Kingdom* is the country that has made the greatest use of the stock market for privatizations. Not only have sales been effected via the market, but specialized companies have been appointed to value issues and set the offer price. In *France*, given the narrowness of the capital market, "agreed sales" (*cessions de gré à gré*) and the sale of enterprises en bloc to a single purchaser have been carried out as well as sales of shares in the market. Another method of privatization that has been used to meet the same need, particularly in *France*, is the public offer of ordinary shares in public enterprises in exchange for non-voting preference shares (*titres participatifs* or *certificats d'investissement*) and the payment of an additional price. The public sector shareholder in *France*, in *Germany* before 1989 and in *Sweden* has also abstained from exercising its options on new issues of shares, thus diluting the state's interest in the company concerned. This method accords in particular with the intention of encouraging the recapitalization of the enterprises by the new shareholders.

6.1.4 *Safeguarding the interests of the state.* – The Government in the *United Kingdom* has retained a "golden share" in privatized companies in order to maintain some measure of control over their subsequent shape. For the same reason the Government in *France* has kept an *action spécifique* and established a nucleus of long-term shareholders, while in *Germany* and *Sweden* the state has continued to hold a stake, even a minority one. Another means to the same end has been to prevent foreign companies from acquiring control.

6.1.5 *Greater managerial autonomy.* – The example of *France* is important for the constant attention paid to the competitiveness of public enterprises and their capital needs against the background of tight budget constraints. It is also significant for the increased autonomy given to the managers of public enterprises and the greater emphasis laid on operational efficiency. Action of this kind was undertaken in all phases of the privatization process in the eighties.

Sweden has followed the same path, although the privatization programme in that country has not been on a large scale. However, the recent change of government has set the stage for a new phase of public disinvestment, which has yet to begin.

6.1.6 *The time scale.* – The time scale for privatization has an important influence on the choice of method. Subscribers need to be offered incentives if the time frame is short or if the authorities wish to attract a large number of small investors. The incentives may take the form of tax rebates (as in *France* and *Germany*) or preferential subscription prices for shares offered to the public (as in the *United Kingdom* and, to a lesser extent, in *France*). The danger of "crowding out" private investment had to be assessed carefully in each case. Such risks do not appear to have materialized in the countries examined, at least not to a significant extent. If they had, special arrangements would have had to be considered, such as payment for shares in instalments (a method used in *France* only for sales of shares to employees) or the subscription of shares in exchange for government securities.

6.2 *In Central Europe*

The Governments of *Czechoslovakia* and *Hungary* plan to sell more than 50 per cent of enterprises to the private sector within the next 3 to 5 years. In the present phase of rapid change it is not easy to estimate the total market value of state property, which includes the bulk of land and housing as well as enterprises.

Most estimates indicate that the value of state property far exceeds that of available private savings. In the past, high public saving contrasted with low private saving; the involuntary accumulation of liquidity seen in other planned economies did not occur in the two countries in question. The inadequacy of the stock of available private savings is one of the main obstacles to rapid privatization. Add to this the shortage of managerial skills, the rudimentary nature of the capital market and the need to restructure many enterprises. Enterprises are difficult to value, owing to the change in price relationships and the lack of rigorous accounting.

Small enterprises, most of which are in the service sector, present less difficulty; the privatization of such businesses is proceeding more quickly in both *Czechoslovakia* and *Hungary*. They are being auctioned by the local authorities, initially only to residents. In *Czechoslovakia* 6,000 small enterprises worth a total of about $100 million were privatized in the first seven months of 1991; in *Hungary* 20,000 have already been sold to private persons and the process is expected to be completed in the next two years.

The problems to be resolved in the case of large enterprises are much more complex and privatization will inevitably take longer. Many of the enterprises cannot be privatized without radical reorganization and financial restructuring, in the course of which uncompetitive enterprises will be closed and firms whose degree of concentration cannot be justified on economic grounds or which violates anti-monopoly regulations will be broken up.

The task of preparing enterprises for privatization has been entrusted to state agencies: the Fund for Public Property in *Czechoslovakia* and the Agency for State Property in *Hungary*. The centralization of the operations to privatize major enterprises is intended to ensure greater transparency and safeguard the state's interest in preventing abuses, such as the cases of "spontaneous privatization" that occurred in the early days in *Hungary*.

The methods laid down for the sale of firms to private persons are different in the two countries. In *Czechoslovakia* privatization will be achieved in a variety of ways. State property nationalized after

1948 will be returned to its previous owners. In order to speed up privatization by overcoming the problem of the savings gap, a high proportion of the total value of enterprises (around 40 per cent) will be distributed to citizens more or less free of charge in the form of coupons from 1992 onwards. The remaining portion can then be sold to domestic or foreign investors. This method greatly reduces the proceeds for the Exchequer, but it is feasible in *Czechoslovakia* in view of the state's modest debt, both at home and abroad. There is also provision for other methods of disposal, such as auctions, direct sales and management buy-outs. Some direct sales of blocks of shares to foreign investors have already been carried out.

The free distribution of shares has been ruled out in *Hungary*, where the state debt is considerable. Nevertheless, workers in large enterprises will be allowed to buy up to 10 per cent of their company's shares, using subsidized credit. The need to ensure adequate proceeds to the Exchequer is tending to slow down the programme of sales. Under a law approved in 1990, the initiative to privatize an enterprise may come from the Agency for State Property, the enterprise itself or prospective outside purchasers. The Agency plans to privatize around 600 large enterprises over the next three years by public or restricted auction and, for enterprises converted into public limited companies, by means of public offerings of shares. A further 400 enterprises are expected to be sold at the initiative of the enterprises themselves.

7. Effects on the public finances

7.1 *The comparative advantages*

Regardless of whether or not the objectives pursued included the financial rehabilitation of the public sector, an important aspect of all recent privatizations has been their effects on the public finances. These effects are not easy to evaluate, either in theoretical terms or at the operational and accounting level.

In abstract terms, it can be argued that the economy as a whole benefits from privatization if the enterprise operates more efficiently after its sale. The public sector also benefits financially if the selling price correctly reflects the higher economic value of the enterprise.

In practice, in the cases examined public enterprises were frequently less profitable than private firms operating in the same sector and required periodic injections of capital. Their lower profitability was due, among other things, to extraneous costs associated with the size and location of their investments, the size of their workforce and their pricing policies. In only a few instances were public enterprises a continuous and significant source of government income. It is difficult to unravel the many links between a public enterprise and the state in order to calculate the comparative benefits precisely; only a computation of this kind would make it possible to verify the claim of the authorities in these countries that privatization has generated permanent benefits for the public finances. The saving of interest on the public debt and the removal of the obligation to make periodic injections of capital are cited as the main budgetary benefits.

7.2 *The use of the proceeds*

The problem of the use to make of the proceeds of sales is one specific and immediate aspect of the wider question of the relationship between privatization and the public finances. Three solutions have been considered.

The proceeds can be used directly to reduce the public debt. In that case, the receipts from sales of assets do not reduce the budget by an equal amount in the year in which they are made, but eliminate interest payments on the part of the debt they are used to repay in advance, net of the foregone profits on the assets in question. If containing the budget deficit is one of the country's objectives, a lower public debt on which interest must be paid helps it attain that aim by reducing the necessary tax increases or spending cuts.

Alternatively, the proceeds from sales of assets in a given year can be counted directly towards state revenue for that year. The benefit to the public accounts then appears to be greater, but it is only temporary, as it stems from non-recurrent receipts and not from structural changes in the budget.

Thirdly, the proceeds can be used to recapitalize the enterprise itself (in the case of partial privatization) or to recapitalize the parent company or other public enterprises. In this case the benefit to the budget stems from the reduced obligation for the state to make capital injections; it is thus indirect, and probably delayed.

In *France* a small part of the proceeds of privatization sales has been used to recapitalize other public enterprises. The rest has been used to repay part of the public debt. Technically, the state budget has been amended by law to create a new account called the "Privatization proceeds account", which records on one side the revenue derived from sales and on the other the expenses in connection with privatization transactions, contributions of capital to public enterprises and the reduction of the public debt. In the *United Kingdom*, *Sweden* and pre-unification *Germany* (after lively debate, in the latter case) the proceeds from the total or partial privatization of publicly owned enterprises were also used to reduce the public debt directly.

8. The rules of the European Community

8.1 *The principles set out in the Treaty*

For existing and aspiring member states of the European Community, the entire subject of privatization has to be considered in the context of Community law, which is relevant in several respects.

The Treaty of Rome is neutral with regard to nationalization and privatization as such. Since 1958 operations of both kinds have taken place in various member countries in accordance with the Treaty. Two separate, and in a sense conflicting, aspects are implicit in this neutral stance, namely respect for member countries' political choices as to the type of ownership, and the principle that the "rules of the game" of the single market should apply equally to both private and public enterprises. In other words, an enterprise may be publicly owned, but that alone is not sufficient reason for it to behave in accordance with a different logic to that laid down in the Treaty.

The Community's action to ensure compliance with these rules needs to be strengthened in view of the launch of the single market in 1993. Enforcement forms part of the wider field of competition policy and affects public enterprises in three ways: it imposes restrictions on state aid to enterprises, opens up the markets in public procurement contracts, and introduces competition in sectors where a public monopoly operates.

8.2 *State aid*

Under the Treaty of Rome, the EEC Commission has important executive powers with regard to state aid. It is paying increasing attention to the financial relations between national public enterprises and the state in order to ascertain more clearly the amount of aid enterprises receive and hence to assess whether it causes unjustified harm to competition.

According to the criteria now being applied by the Commission, contributions of public capital to public enterprises constitute state aid if they are made in circumstances in which a private financier operating under normal market conditions would judge it unprofitable to invest in the enterprise. This is the case if the capital is provided to an enterprise in such difficulties that the investment cannot be expected to yield a normal return within a reasonable period, if at the same time private investors are disinvesting from the enterprise, and if the sector in which the enterprise operates has structural excess capacity at Community level. Since this year the Commission has applied this interpretation to all forms of public financing, including loans, guarantees and implicit aid stemming from the inadequate remuneration of capital.

8.3 *Public procurement*

The opening-up of public procurement contracts to suppliers from anywhere in the Community and the application of Community rules on competition and transparency reduce the privileges that national, publicly owned enterprises enjoyed in many countries in the supply of goods and services to the state. They are now increasingly exposed to competition, irrespective of their ownership status.

8.4 *Competition in public utilities*

Finally, judgements by the European Court of Justice and initiatives by the Commission are curtailing the monopoly power that public utilities have exercised in almost all countries for many decades, including their power to set prices. These actions are being reinforced by the possibility of separating the management of the distribution network (electricity cables, railway track, pipelines, etc.) from the provision of the good or service using it. Public monopoly is tending to be confined to the former, while the supply of goods and services is being opened up to competition. The policy that the Community is increasingly pursuing has produced far-reaching changes in fields such as telecommunications, air transport, postal services and energy and rail transport, sectors in which public or nationalized enterprises have traditionally been prominent.

The creation of a unified European market has already begun to influence corporate behaviour, especially as regards strategies of international cooperation. Public enterprises have also been affected, concluding further cooperation agreements with private enterprises in other member countries. In some cases, such as the exchange of shareholdings by Régie Renault and Volvo, the agreements may lead to a full merger. The Commission of the EEC not only encourages such agreements, but has also warned the British Government about the stance the latter has adopted, which is biased against public enterprises from other European countries taking control of British firms.

From this brief illustration of the Community's approach, it can be concluded that in an open market in which the rules of competition are established at supranational level and policed by a supranational authority with the necessary powers of enforcement, the scope for giving nationalized enterprises special treatment is tending to narrow, while the area in which competitive behaviour is required, irrespective of the type of ownership, is widening.

9. Conclusions

A number of general conclusions can be drawn from the examination of the experience of these six countries, which are very different in terms of traditions and economic structure.

First and foremost, privatization is now an integral part of the economic strategy of many countries, whereas ten years ago it was almost unknown. In every case it has sprung from the conviction that the efficiency and competitiveness of the economy can benefit from a widening of the area in which private enterprise operates. This conviction, which is the outcome of both political judgement and economic analysis, is a cardinal principle in the transformation now occurring in the countries of Central Europe.

The cases examined show, secondly, that the rationale of privatization is primarily economic, and not financial. That is to say, it relates to resource allocation: production and investment, competitiveness and growth. The financial implications for both the private and public sectors are of great importance at the implementation stage, but in general they have not been the prime mover.

No single model emerges from the operations that have been carried out. The initial conditions of the countries differed markedly, even within the group of Western European countries examined. In some there was little to privatize, in others a great deal. The financial condition of the state differed, as did the level of development of the stock market. Conceptions of the role of the state in the economy were not identical.

Finally, privatization can be seen to be a very complex undertaking, requiring solutions to be found for a number of legal, economic, organizational and financial problems. These are not easy to tackle and resolve quickly, and the instruments normally available to governments do not lend themselves to this purpose. The solutions adopted will determine the characteristics of privatization operations: the assets to be privatized, the techniques, the placement procedures, safeguards for the interests of the state, the time scale and the use of the proceeds. The decisions reached on each of these points reveal the true objectives of privatization.

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1 Until 1986 this provision was circumvented by selling subsidiaries controlled by public sector groups, to the extent that some privatizations were deemed to be "illegal".

2 The companies agreed to pay a premium and undertook not to sell the shares for a certain period. The Government recently removed the restrictions preventing the "friendly core" of shareholders from selling their shares. At the same time, the National Assembly has empowered the Government to sell up to 49.9 per cent of any public enterprise to private buyers, provided this is done by issuing new shares and is subject to various guarantees regarding the enterprises' investment and employment policies.

Address by the Governor, Carlo A. Ciampi,

to the 34th National Congress of the Italian Forex Club

Bari, 26 October 1991

1. In the twelve months since our meeting in Verona the development of the industrial economies and international money and financial markets has been profoundly influenced by the changes that have occurred in the world's political equilibria and the expectations they have generated.

The Gulf crisis accentuated the slowdown in economic activity in the leading industrial countries, which had already been under way for two years except in Japan and Germany. In North America and the United Kingdom the slowdown qualified as a recession. The prospect of a conflict of uncertain duration aroused fears of a long period of declining output, accelerating inflation and worsening external imbalances. The exchange rate of the dollar reflected these fears more than any other indicator, falling to an all-time low against the European currencies in February and requiring energetic support from the central banks of the Group of Seven countries.

The swift conclusion of the war with Iraq triggered a wave of optimism based on expectations of a prompt and strong recovery of the US economy. The dollar strengthened rapidly, notwithstanding the widening of its negative interest rate differential when the Federal Reserve lowered the official discount rate in February and April. Between February and June the dollar appreciated by 27 per cent against the Deutschemark and by 11 per cent against the yen. In July the Group of Seven central banks had to intervene again, this time to curb the rise of the US currency. The subsequent weakening of the dollar was abetted by the increase in German official rates in mid-August.

News of the attempted coup d'état in the Soviet Union in August caused the dollar to rise sharply again on European markets, where appreciated by more than 4 per cent against the Deutschemark in just a few hours. Central bank intervention restored normal conditions, which became more firmly established as the hours passed and the political crisis in the Soviet Union was resolved. In the following weeks the dollar stabilized at around DM 1.70 and 133 yen.

Since then, foreign exchange markets have been influenced to a greater extent by underlying conditions in the leading economies and by interest rate differentials. With German short-term rates more or less stable, the markets are waiting or hoping for a further fall in US rates. The United States has a positive interest rate differential for medium and long-term securities vis-à-vis Japan and a negative one vis-à-vis Germany. A strengthening of the Deutschemark would be consistent with the need to counter the inflationary pressures caused by German unification, while the weakness of the yen conflicts with the further large increase in the Japanese trade surplus, which has made Japan the largest creditor nation.

With the prospect of a recovery in world economic activity in 1992 and greater cyclical convergence, the large share of savings absorbed by budget deficits is worrying in view of the demand for funds that may arise in the Eastern European countries. As agreed at the meeting of the G-7 countries in Bangkok, it is essential that budget policies be adopted that will permit a lasting decline in real interest rates from the historically high levels inherited from the eighties. If the correction of budget deficits is delayed or not implemented in full, competition between countries to attract savings may cause tensions in financial and foreign exchange markets.

The periods of turbulence in foreign exchange markets we witnessed during the year confirmed the role that coordinated action by the central banks of the leading industrial countries can play in shaping market decisions. Over the years the dialectical relationship between central banks and the markets has matured and become more cooperative. The events both before and after the Plaza meeting of 1985 and those following the Louvre agreement of 1987 bring to mind images of attack and counterattack, ambush and trench warfare. The desired results were also achieved on those occasions, but at a high cost in terms of wasted resources, prolonged periods of tension in the exchange markets and repercussions on other financial markets. In 1990 and 1991 the markets have responded to signals from the monetary authorities, partly owing to the fact that exchange rates are now more closely in line with economic fundamentals. On occasion the monetary authorities were able to limit the size of their interventions, relying on the promptness and coordinated nature of their actions to make them effective.

2. Against this international background, Italy's exchange rate policy was consistent with the decision to adhere to the narrow band of the ERM and with the rules embodied in the Basle-Nyborg agreements. The more binding monetary constraint was perceived to be credible, so that the periods of mild tension in the Italian foreign exchange market could be handled with a balanced combination of intervention, exchange rate fluctuation and adjustment of short-term interest rates.

It was feared in some quarters that the adoption of the narrow fluctuation band for the lira would increase exchange rate variability or necessitate greater intervention. This has not been the case: the lira has been almost continually in the upper part of the band; in 1990 the variability of the lira/DM exchange rate was around 1 per cent, the same as in 1989, while in the first ten months of this year it was only half as much. Gross intervention (purchases plus sales) increased by about 20 per cent in 1990, primarily as a result of sales to prevent the lira from rising above its upper limit, but fell by about 50 per cent in the first nine months of this year. In the past the Bank of Italy used to intervene in the exchange market almost daily to ensure orderly conditions, but in the first nine months of this year it intervened on only 30 days out of 190.

In its management of domestic liquidity the Bank of Italy has steered money market rates towards levels consistent with the exchange rate constraint and expectations regarding interest rates in the leading EMS countries. This has led to greater variability in short-term rates, especially at the time of the increases in official German rates decided by the Bundesbank in November 1990 and the middle of August 1991.

It is noteworthy that the enhanced "self-regulating" capacity of the foreign exchange market emerged at a time of unprecedented growth in gross capital flows. In 1989 inflows and outflows of bank and non-bank capital totaled 580 trillion lire; in 1990 they rose to nearly 1,000 trillion, a figure that was surpassed in the first nine months of this year. Italy's net foreign debt accordingly amounted to 117 trillion lire in June, the balance of assets worth 463 trillion and liabilities totaling 580 trillion.

Taken together, these developments and trends are evidence of the scale of the transformation that has occurred in the market. The new statistics compiled by the Italian Foreign Exchange Office show an increase in banks' holdings of foreign exchange and a closer integration between lira and foreign currency treasury operations. The financial system is taking advantage of the removal of the restrictions on foreign exchange trading and the market is becoming deeper and more efficient.

The development of the foreign exchange market has also benefited from changes in the legal and regulatory framework. The codified foreign exchange law of 1988 made the Bank of Italy responsible for determining the entities eligible to trade in foreign exchange and empowered it to authorize both bank and non-bank intermediaries, including financial companies, securities firms and *bureaux de change*. It did not, however, indicate how the market was to be regulated in the new situation that would be created by the complete liberalization of capital movements after the incorporation of EEC Directive 88/361 into Italian law in May 1990.

The omission was rectified by Article 21 of Law 1 of 2 January 1991, which states that the Treasury Minister "shall regulate the foreign exchange market and transactions therein, as well as the forms that the supervision of the market shall take and the related powers and functions of the Bank of Italy". The aim must be to establish a regulatory framework that is consistent with Italy's commitments within the Community and which, in particular, can be applied, in cooperation with the Consob, to the innovative instruments whose development in Italy was hindered by the prolonged existence of exchange controls.

In this context we shall also consider reforming the system of fixing exchange rates daily. The fixing is no longer necessary to enable banks to square their foreign exchange positions, as they were required to do under the former exchange controls. The reform, which will take account of the arrangements in other European countries, will have to reconcile the need for customers to have points of reference for their transactions with the objective of greater market efficiency. Foreign exchange traders will be able to make an invaluable contribution by virtue of their experience and skills.

The Bank of Italy intends to broaden the range of intermediaries allowed to trade in foreign exchange, which at present is restricted to banks and *bureaux de change*. The right to engage in this type of business will be extended to securities firms governed by Law 1 of 1991 and financial companies listed in the register referred to in Article 7 of Law 197 of 5 July 1991. The power to grant authorizations implies that authorized persons will be subject to control by the body responsible for their access to the market, namely the Bank of Italy. By proceeding in accordance with these guidelines, it is hoped to enhance the expertise of market participants, stimulate competition and ensure uniform regulations and controls.

3. The adoption of the narrow fluctuation band and the liberalization of capital movements are key aspects of Italy's decision to participate in the economic and monetary unification of Europe. The advantages deriving from these decisions already extend beyond the foreign exchange market.

The process of modernizing and developing Italy's financial institutions and markets has been given additional impetus. The operational scope and effectiveness of monetary policy have been increased by the greater efficiency of the markets. Confidence in the lira has been enhanced; this in turn has had a positive effect on the differential between Italian interest rates and those of the other leading Community countries. The stability of the exchange rate has moderated inflation by curbing its domestic component.

As I pointed out last year, the objective of European integration that the country has set itself requires economic policy to be in tune with monetary and exchange rate policy. If Italy's inflation rate is to converge with those of its main competitors in the Community, exchange rate stability will have to be backed by a new willingness on the part of employers and labour to agree on objectives and rules of behaviour, without infringing their autonomy and separate responsibilities. In order to narrow the interest rate differential, restore the scope for using fiscal policy for countercyclical purposes and fulfil the commitments associated with Economic and Monetary Union, we need a budgetary policy that can bring a lasting improvement in the public finances. The absence of an incomes policy and the delays in implementing the necessary budgetary measures have already taken a heavy toll, and continue to do so.

The absolute and relative levels of Italian inflation demonstrate the urgent need for a sea change in the management of the economy. Consumer prices have risen at an annual rate of between 5 and 7 per cent for four years; the differential vis-à-vis the other countries adhering to the narrow EMS band remains stubbornly at around 3 percentage points.

This gap is the measure of both the effectiveness and the limitations of exchange rate policy: it is able to prevent the inflation differential from widening again, but unable to narrow it further.

An econometric simulation has shown that if after the spring of 1988, when the monetary authorities started to prepare for the liberalization of capital movements, the nominal exchange rate had fallen enough to keep the real exchange rate vis-à-vis our leading competitors unchanged, consumer price inflation in the three following years would have been 3 or 4 percentage points higher owing to domestic price factors; today it would have stood at around 10 per cent. Much of the progress achieved in the first part of the eighties would have been annulled. This risk has been avoided, but at the cost of an accelerating deterioration in the economy's price competitiveness.

Between the middle of 1988 and July 1991 the real exchange rate, measured in terms of industrial producer prices, rose by 7.1 per cent against the other currencies in the narrow EMS band and by 7.5 per cent against those of the leading industrial countries as a whole.

While Italy's share of world trade in volume terms is stagnating at the lowest levels of the last ten years, import penetration is increasing. In 1989-90 29 per cent of domestic demand for manufactured goods was met by imports, compared with an average of 25 per cent in 1984-88. In monetary terms, the effects of these trends have been offset by changes in the terms of trade, which improved by 6.8 per cent between the first half of 1989 and the first half of this year owing to the strength of the lira, the fall in the prices of non-energy raw materials and the weakness of the dollar.

The fact that trade has been nearly in balance in the last few years is not a good enough result: a trade surplus is needed to offset the growing deficit on income from capital, which rose to 1.2 per cent of GDP in 1990. The factors contributing to this growth include the increase in Italy's net foreign debt and the rapid expansion in external assets and liabilities, since the cost of the liabilities exceeds the yield on the assets. Any firm raising external finance has to invest the borrowed resources in activities that will produce sufficient income to service the debt; by the same token, net foreign borrowing by the economy as a whole has to be matched by investment that in the medium term will translate into an expansion of net exports at least equal to the payments due on the borrowed capital. The failure to fulfil this condition is further evidence of the difficulties facing the Italian economy.

The decline in competitiveness in the last few years has been mitigated by the pricing policies of Italian industrial companies. They have had to accept a reduction in their profit margins. In 1988, the last year for which Istat data are available, the gross profits of industrial firms with more than 20 employees were equal to 39 per cent of their value added, as against 30 per cent in 1980 and 27 per cent in the mid-seventies. This high figure was due in part to the restructuring of industry that occurred in the first half of the decade and the fall in oil prices in 1986.

Since then, profit margins have narrowed, initially to a moderate extent but more rapidly since activity has begun to stagnate. In 1990 the share of profits in the value added of the large and medium-sized firms surveyed by Mediobanca was 4-5 percentage points lower than in 1988.

In the last quarter of 1990 and the first quarter of this year the disparity between the rates of increase in unit variable costs and producer prices widened sharply. Unit costs rose at an annual rate of more than 10 per cent, propelled by the temporary surge in oil prices and an acceleration in labour costs that was partly due to the bunching of new wage agreements; the rate of increase in producer prices also accelerated, but did not exceed 4.5 per cent on an annual basis. The rise in unit costs has since slowed and the gap has narrowed, but it remains large.

If unit labour costs continued to rise more rapidly in Italy than in our main competitors because of failure to break the wage-price spiral, industrial firms would be forced to choose between accepting a further fall in profitability and losing market share. In the first case the incentive to invest in Italy would be blunted; in the second Italian industry would be squeezed directly in the market for manufactures. In either case economic growth and employment would both be jeopardized.

The threat to companies in the services sector is also becoming serious. Those that are increasingly exposed to international competition, such as firms in tourism, telecommunications and financial services, are also suffering from larger increases in costs and prices than their competitors. Improvements in efficiency and product quality are necessary to guarantee their future competitiveness, but will not be sufficient on their own. More generally, many service companies depend on growth in industry to stimulate both demand and their ability to innovate; a slowdown in the industrial sector spreads rapidly to the rest of the economy.

The dangers I have described do not lie in some more or less distant period in the future; they are already a reality.

International organizations forecast that the expected recovery in the world economy will occur in 1992; there nonetheless remains considerable uncertainty, as was recalled at the recent meetings in Bangkok. The signs of an upturn in Italy appear weaker and less clearcut than elsewhere. Industrial production declined by 3.5 per cent between the end of 1989 and the end of 1990 and continued to fall in the first ten months of this year. The indications of a revival in domestic demand are not such as to signal a reversal of this trend and, notably, they do not come from the investment goods sector.

If the Italian economy is to be able to seize the opportunity offered by recovery abroad and a new investment cycle is to begin, with domestic demand also playing its part, the country must have confidence in the economic adjustment measures and firms be convinced they can be competitive.

Italy's long-standing membership of the EMS and its participation in the construction of EMU have reinforced the belief that a lasting recovery of competitiveness has to be based on structural changes, not on illusory exchange rate adjustments. The country must now act accordingly.

An active policy to increase competition in the services sector will be needed to help chip away at the hard core of Italian inflation. The removal of barriers to entry and other forms of protection that are no longer justified will encourage innovation, boost productivity and reduce costs. More efficient and better public services in the fields of transport, education, health care and assistance to old people will be a source of greater welfare; they will help to moderate the rise in earnings and increase the competitiveness of the rest of the economy. Determination and tenacity will be needed because these are the fields in which we are most backward and where improvements can only be achieved gradually.

By contrast, results are urgently needed in the fight against inflation, making recourse to incomes policy all the more necessary. As in other countries, it is up to the public sector to give a lead. The Finance Bill submitted to Parliament provides for the increase in the per capita earnings of public sector employees in 1992 to be capped at 4.5 per cent, the target rate of inflation. Replacing the actual rate of inflation by the target rate in all the mechanisms for adjusting incomes to increases in the cost of living is the most certain way of meeting the target. The unions and employers' associations will have to establish a system of bargaining in which the protection of the purchasing power of wages and salaries no longer involves an inflationary spiral. The purchasing power of employees must not be maintained at the expense of underutilizing the potential for growth and foregoing the creation of new jobs.

The fight against inflation will be supported by the stability of the lira within the EMS and a monetary policy that is consistent with this commitment. The target range for the growth in M2 in 1992 has been set at 5-7 per cent. If inflationary pressure proves to be greater than expected, the upper limit for growth in the money supply will act as a curb.

4. The other pillar of an economic policy consistent with the choices made for monetary and exchange rate policy is decisive and visible progress in the restoration of sound public finances.

Some headway has been made. Last year the ratio of the borrowing requirement to GDP was 10.7 per cent, compared with the peak of 13.9 per cent in 1983; this year it should be barely above 10 per cent. The budget deficit net of interest payments has been substantially reduced and should be eliminated this year.

This nonetheless falls short of the objectives envisaged in the Government's plans, which have had to be revised on several occasions. The aim of halting the growth in the public debt in relation to GDP by the beginning of the nineties has not been achieved. Clearly identified structural problems have not been tackled.

This has had two adverse consequences:

- the borrowing requirement on a current programmes basis has not been reduced, so that the overshoot compared with the planned figure grows wider each year and it becomes increasingly difficult to devise emergency measures to make good the difference;
- the continual growth in the debt, which will have risen to 102 per cent of GDP by the end of this year, increases the interest burden.

In the Economic and Financial Planning Document published in May, the Government set itself the objective of halting the rise in the ratio of debt to GDP by the end of 1993. To achieve this objective, it announced plans for expenditure and revenue measures and the privatization of public enterprises designed to bring a gradual improvement in the budget deficit net of interest payments. The Government intends to keep the 1992 state sector borrowing requirement below 128 trillion lire and to achieve a surplus of 25 trillion in the budget net of interest payments.

The Finance Bill and the accompanying budgetary measures, which were submitted to Parliament at the end of September, provide for a 55.5 trillion lira correction to the 183.3 trillion lira budget deficit on a current programmes basis. In quantitative terms the adjustment is substantial; in qualitative terms it does not entirely conform with the guidelines laid down in the Economic and Financial Planning Document, which mostly envisaged measures that would have a lasting effect on receipts and expenditure, especially the latter.

A large part of the reduction in the borrowing requirement, 28 trillion lire, comes from one-off measures: the tax condonation scheme, the compulsory revaluation of corporate assets and privatization. The increases in revenue exceed the savings in expenditure: the figures for the public sector are respectively 24.8 and 17.8 trillion lire. Furthermore, some of the measures could yield less than expected.

Even though keeping the 1992 state sector borrowing requirement down to 128 trillion lire is an important and essential step on the path to adjustment, the proposed measures cannot be said to solve the problem. There continues to be an urgent need for more incisive action, in other words the measures outlined in the Economic and Financial Planning Document for social security, health care, local finances and public employment.

Italy has chosen to overcome the imbalance in its public finances by following a gradualist approach that will cushion the effects of adjustment policies on economic activity. To be successful, this strategy must be underpinned by a rigorous and unwavering commitment. It calls for determination in resisting pressure to increase spending and grant tax relief. It also requires that every deviation from the planned path should be promptly offset by additional measures. Lastly, it means that, as the effects of temporary measures dwindle, they should be replaced by others that will permanently modify the rate of growth in both revenue and expenditure, especially the latter.

If the conditions I have described are not completely satisfied at any point on the path to sound public finances, the adjustment process could lose credibility and further progress become more difficult. At worst, it would be necessary to resort to shock treatment, a strategy other countries have pursued successfully, including Ireland among our EEC partners.

The macroeconomic situation is less favourable than it was in the second half of the eighties, but this does not prevent continued determined action on the path of adjustment. Corrective measures may slow down economic growth in the short term; they do not bring it to a halt, however. In any case this is a small price to pay compared with the drag on development resulting from the waste of savings and the damage to confidence inherent in failure to tackle the imbalance in the public finances decisively. Every delay raises the cost of adjustment; the primary surplus needed first to stabilize and then reduce the ratio of debt to GDP increases with the size of the debt and the effect this has on the level of interest rates.

5. For you and for us at the Bank of Italy, who operate daily on the world's foreign exchange markets and continuously square up to foreign competition, the last twelve months have not been without their successes.

Nearly two years have passed since Italy adopted the narrow EMS fluctuation band and more than one year since the last exchange controls were lifted. Events have proved that these decisions were not precipitous; on the contrary, they have opened up new prospects of economic progress and enhanced the country's standing in international fora. Our financial institutions have shown they can thrive in an open market.

This is no time for self-congratulation, but it is only right to recall these developments in order to strengthen confidence in ourselves and in our ability to solve the difficult problems facing us.

These problems can be expressed in terms of two well-defined aims:

- to bring our economy out of the cyclical doldrums;
- to avoid missing our destiny in Europe or weakening our bargaining position in this key stage of the construction of the Community.

Two aims, different in their formulation and in their economic significance; the first relates to the short term, while the second is of much more lasting importance. Common to them both is the need for the rapid elimination of the factors that diminish the ability of the Italian economy to compete and to embark confidently on a path of stable growth.

In my remarks I have pointed out the underlying trends in the domestic economy that are fueling inflation and analyzed the costs at which it has so far been possible to attenuate their effects.

It is proving difficult to bring inflation back to the level recorded before the Gulf war. A significant slowdown requires consistent behaviour on the part of all economic agents; an effective incomes policy is needed. This is the only way to ensure that the actual rate of inflation coincides with the target rate year after year. If we succeed, everyone will benefit from the success; equally, if we fail, everyone will be harmed.

The international economic recovery is taking shape, spearheaded by the countries that were worst affected in the recessionary phase. If the Italian economy is to participate in the upturn, the slowdown in inflation must be consolidated and accentuated and the domestic factors sustaining the rise in prices must be neutralized. Only in this way can the necessary stability of the lira within the narrow EMS band serve as a basis for a new phase of expansion and its beneficial effects be coupled with those of a more rapid decline in Italian interest rates towards the levels prevailing in other European countries. The Italian economy needs a new investment cycle to modernize and strengthen its productive capacity and to create new jobs.

As on many other occasions, today I have addressed the serious and difficult problem of Italy's public finances. The Finance Bill is the subject of fierce debate. The Bank of Italy, requested by Parliament to give its opinion, concurred with the quantitative target for the 1992 borrowing requirement but pointed out the qualitative limitations of the measures designed to correct the underlying trends, especially on the expenditure side. If the debate is to be constructive, it must lead to a strengthening of the contents of the budget and not turn it into an empty shell. The Finance Bill is an indispensable part of the programme to achieve convergence that the Italian Government has submitted to the EEC Commission under the multilateral surveillance procedure introduced to promote the implementation of economic and monetary union. The programme will be discussed in Brussels in the coming weeks.

Eliminating inflation and restoring sound public finances will undoubtedly entail sacrifices, but not such as will lower Italians' standard of living if the nettle is grasped resolutely. Other countries with less potential than ours have succeeded. What is needed is a collective act of will.

It is not a question just of satisfying the primarily monetary and financial conditions that the Community will lay down for participation in the integration of Europe but also of exploiting the opportunities this will bring and avoiding the attendant dangers. The whole economy must equip itself to withstand the challenge from aggressive competitors. Otherwise in the European single market a growing part of Italian demand for both consumer and investment goods will turn to the more efficient economies. Unemployment in this country would become endemic.

At the beginning of the eighties, when the situation was dramatic in several respects, I did not share the view that a crisis was inevitable, to be followed by a miraculous catharsis. I still do not share this view, notwithstanding the undeniably difficult state of the Italian economy today. Ten years ago the country reacted, expressed a collective act of will; traumatic upheavals were avoided, and by tenacious effort the conditions were created for a long period of economic expansion, for an increase in Italy's role and importance in the international community. As on that occasion, the only ambition of the institution I represent is to contribute to creating these conditions.

Appendix

Statistical tables

In the following tables the figures for "Germany" refer to the western regions of the country unless otherwise specified. See the Notes to the Tables.

Unless indicated otherwise, the figures in the tables have been computed by the Bank of Italy.

Symbols and conventions:

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

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

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

( ) provisional.

( ) estimated.

Table a1

Gross product, implicit price deflator and current account balance

	US	Japan	Germany	France	UK	Italy	Canada
				Real GNP (% changes on previous period; seasonally adjusted data)			
1985	3.4	5.1	2.1	1.9	3.6	2.6	4.8
1986	2.7	2.7	2.2	2.5	4.0	2.9	3.3
1987	3.4	4.3	1.4	2.2	4.6	3.1	4.2
1988	4.5	6.3	3.5	4.2	4.2	4.1	4.7
1989	2.5	4.7	3.8	3.9	2.3	3.0	2.5
1990	1.0	5.7	4.7	2.8	0.9	2.0	0.5
1990 – 1st qtr.	0.4	1.6	2.4	1.2	0.5	0.8	0.6
2nd "	0.1	1.4	0.3	..	0.9	–0.3	–0.2
3rd "	0.4	1.1	1.8	0.8	–1.4	0.6	–0.3
4th "	–0.4	0.6	0.6	–0.1	–1.2	0.2	–1.2
1991 – 1st qtr.	–0.7	2.7	2.4	0.2	–0.6	0.2	–1.2
2nd "	–0.1	0.5	–0.6	0.8	–0.5	0.3	1.2
				GNP deflator (% changes on previous period; seasonally adjusted data)			
1985	3.0	1.6	2.1	5.8	5.8	8.9	2.6
1986	2.6	1.8	3.3	5.2	3.5	7.9	2.4
1987	3.1	..	1.9	3.0	5.0	6.0	4.7
1988	3.3	0.3	1.5	3.0	6.5	6.6	4.8
1989	4.1	1.9	2.6	3.1	6.9	6.0	4.7
1990	4.1	1.9	3.4	2.8	6.8	7.5	3.0
1990 – 1st qtr.	1.2	–0.1	1.0	–0.2	2.2	....	0.5
2nd "	1.2	0.7	0.9	1.4	1.2	....	0.8
3rd "	0.9	–0.1	1.1	0.1	2.5	....	0.7
4th "	0.6	1.1	0.3	0.8	1.3	....	0.8
1991 – 1st qtr.	1.3	0.5	1.0	0.9	0.7	....	1.3
2nd "	1.1	0.3	2.2	0.5	3.2	....	0.4
				Current account balance (billions of dollars; seasonally adjusted data)			
1985	–122.3	49.2	17.1	–0.2	3.8	–3.5	–2.3
1986	–145.4	85.5	40.3	1.8	–0.1	2.5	–8.2
1987	–162.3	86.9	45.8	–5.1	–7.4	–1.1	–8.8
1988	–127.4	78.8	50.4	–4.7	–27.4	–5.7	–11.3
1989	–106.3	57.7	57.4	–4.6	–32.5	–10.6	–17.5
1990	–92.1	35.8	47.1	–8.4	–23.8	–14.4	–18.9
1990 – 1st qtr.	–22.7	14.4	17.3	–0.3	–8.6	–4.4	–5.3
2nd "	–22.2	7.9	11.5	–2.9	–8.5	–3.7	–4.6
3rd "	–23.9	7.0	12.8	–3.7	–3.6	–2.5	–4.3
4th "	–23.4	6.4	5.5	–1.4	–3.2	–3.7	–4.6
1991 – 1st qtr.	10.2	17.8	–6.9	–2.9	–4.9	–1.5	–4.8
2nd "	(3.0)	18.8	–5.8	(–1.6)	–1.6	–5.8	–4.8

Table a2

Industrial production

(% changes on previous period; seasonally adjusted data)

	US	Japan	Germany	France	UK	Italy	Canada
1985	1.7	3.7	4.9	0.7	5.5	1.2	5.6
1986	1.0	–0.2	1.9	1.1	2.3	3.6	–0.8
1987	4.9	3.4	0.4	1.9	3.3	3.9	4.9
1988	5.4	9.3	3.6	4.1	3.7	6.0	5.5
1989	2.6	6.0	4.8	3.7	0.2	3.1	–0.1
1990	1.0	4.7	5.2	1.1	–0.6	0.1	–4.3
1989 – 3rd qtr.	–0.3	0.2	2.1	0.2	1.3	1.4	–1.4
4th "	0.1	0.7	0.6	–0.2	–0.1	1.6	–0.3
1990 – 1st qtr.	0.2	0.8	1.5	–0.5	–0.5	–1.3	–1.9
2nd "	1.0	2.2	0.1	1.4	1.9	..	–0.4
3rd "	1.0	2.2	3.3	1.5	–3.0	–0.1	–0.9
4th "	–1.9	1.4	0.3	–2.6	–1.8	–2.2	–3.3
1991 – 1st qtr.	–2.5	0.2	1.7	0.2	–0.3	0.7	–2.2
2nd "	0.5	–0.6	0.1	1.1	–1.2	–0.6	1.3
3rd "	(1.3)	....	....	....	....	....	....
1990 – Sept.	0.1	–0.5	0.9	–1.6	–0.2	–0.4	–1.7
Oct.	–0.7	2.6	–0.2	0.3	0.1	–1.4	–0.1
Nov.	–1.5	–1.0	–0.3	–1.8	–1.7	–0.9	–1.9
Dec.	–1.0	–0.4	–0.3	–2.0	–0.6	–0.4	–1.1
1991 – Jan.	–0.6	1.6	2.5	3.8	–0.5	2.5	0.0
Feb.	–0.8	–0.1	–0.7	–0.8	1.7	–2.0	–1.1
Mar.	–0.7	–2.1	0.1	–2.8	0.0	0.4	–0.4
Apr.	0.5	0.2	–0.6	3.5	–2.4	–2.3	1.3
May	0.8	2.2	–0.7	–0.2	–0.4	2.0	0.8
June	0.6	–2.5	4.0	0.0	3.0	2.5	0.4
July	0.6	2.9	–1.4	(0.2)	(0.1)	–3.7	(0.5)
Aug.	(0.0)	(–2.1)	(–1.2)	(0.8)	(–1.5)	....	....
Sept.	(0.1)	....	....	....	....	....	....

Table a3

Consumer prices

(% changes on corresponding period)

	US	Japan	Germany	France	UK	Italy	Canada
1985	3.5	2.0	2.2	5.8	6.1	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
1990	5.4	3.1	2.7	3.4	9.5	6.5	4.8
1989 – 3rd qtr.	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	9.7	6.1	4.6
3rd "	5.6	2.7	2.7	3.4	10.4	6.5	4.2
4th "	6.2	3.9	3.0	3.6	10.0	6.7	4.9
1991 – 1st qtr.	5.3	4.2	2.7	3.4	8.7	6.4	6.5
2nd "	4.9	3.6	3.1	3.2	6.0	6.6	6.3
3rd "	(3.9)	....	(4.1)	(3.0)	(4.8)	....	(5.7)
1990 – Sept.	6.2	3.0	3.0	3.8	10.9	6.7	4.2
Oct.	6.3	3.5	3.3	4.0	11.0	6.8	4.7
Nov.	6.3	4.2	3.0	3.6	9.7	6.8	5.0
Dec.	6.1	3.9	2.8	3.3	9.4	6.6	5.0
1991 – Jan.	5.7	4.6	2.8	3.5	8.9	6.3	6.9
Feb.	5.3	3.9	2.7	3.5	8.9	6.4	6.2
Mar.	4.9	4.0	2.5	3.2	8.2	6.6	6.3
Apr.	4.9	3.6	2.8	3.2	6.3	6.6	6.3
May	5.0	3.5	3.0	3.2	5.8	6.7	6.2
June	4.6	3.7	3.5	3.3	5.8	6.6	6.3
July	4.5	3.7	4.4	3.4	5.5	....	5.9
Aug.	3.8	(3.3)	4.1	3.0	4.7	....	5.8
Sept.	(3.4)	....	(3.9)	(2.6)	(4.1)	....	(5.4)

Table a4

Wholesale prices

(% changes on corresponding period)

	US	Japan	Germany	France	UK	Italy	Canada
1985	–0.5	–1.1	0.5	4.4	5.5	7.7	2.8
1986	–2.9	–9.1	–7.4	–2.8	4.3	0.2	0.9
1987	2.6	–3.8	–3.8	0.6	3.9	3.0	2.8
1988	4.0	–1.0	1.1	5.2	4.5	3.6	4.3
1989	5.0	2.6	5.1	5.4	5.1	5.9	2.0
1990	3.6	2.1	0.6	–1.2	5.9	4.1	0.3
1989 – 3rd qtr.	4.1	3.1	4.8	4.5	5.1	5.5	1.5
4th "	4.0	3.7	4.0	0.9	5.2	5.8	0.2
1990 – 1st qtr.	3.2	3.7	0.8	–1.7	5.4	4.9	–0.4
2nd "	1.3	1.8	–0.2	–2.3	6.3	3.7	–0.4
3rd "	3.6	0.9	0.8	–1.4	6.0	4.0	0.1
4th "	6.2	1.9	0.8	0.7	5.9	4.0	1.9
1991 – 1st qtr.	2.6	1.6	1.7	0.7	6.3	4.2	1.2
2nd "	1.7	0.4	1.4	....	6.0	3.9	–0.6
3rd "	(–0.2)	..	(1.8)	....	....	....	....
1990 – Sept.	5.3	0.9	0.5	....	5.8	4.4	0.9
Oct.	7.0	1.5	1.3	....	5.9	4.2	1.5
Nov.	6.5	2.0	0.8	....	5.9	4.0	2.0
Dec.	5.1	2.2	0.3	....	5.9	3.7	2.4
1991 – Jan.	3.6	2.1	1.6	....	6.3	4.2	2.3
Feb.	2.4	1.6	2.6	....	6.3	4.2	1.0
Mar.	1.7	1.0	1.1	....	6.3	4.2	0.5
Apr.	1.7	0.1	0.9	....	6.2	4.0	0.0
May	1.6	0.6	1.3	....	6.0	3.8	–0.9
June	1.7	0.6	1.9	....	5.8	3.8	–0.8
July	1.3	0.4	3.1	....	5.9	....	–0.8
Aug.	(–0.2)	(0.1)	(1.3)	....	....	....	....
Sept.	(–1.7)	(–0.4)	(1.0)	....	....	....	....

Table a5

Short-term interest rates

	US	Japan	Germany	France	UK	Italy	Canada
				Official reference rates *(end-of-period data)*			
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	7.00	4.25	6.00	10.00	15.00	13.50	12.47
1990 – Sept.	7.00	6.00	6.00	9.50	15.00	12.50	12.61
Oct.	7.00	6.00	6.00	9.50	14.00	12.50	12.66
Nov.	7.00	6.00	6.00	9.25	14.00	12.50	12.25
Dec.	6.50	6.00	6.00	9.25	14.00	12.50	11.78
1991 – Jan.	6.50	6.00	6.00	9.25	14.00	12.50	10.88
Feb.	6.00	6.00	6.50	9.25	13.00	12.50	10.02
Mar.	6.00	6.00	6.50	9.00	12.50	12.50	9.92
Apr.	5.50	6.00	6.50	9.00	12.00	12.50	9.66
May	5.50	6.00	6.50	9.00	11.50	11.50	9.07
June	5.50	6.00	6.50	9.00	11.50	11.50	8.91
July	5.50	5.50	6.50	9.00	11.00	11.50	8.94
Aug.	5.50	5.50	7.50	9.00	11.00	11.50	8.80
Sept.	5.00	5.50	7.50	9.00	10.50	11.50	8.68
				Money market rates *(period averages)*			
1987	5.78	3.86	3.99	8.27	9.72	9.75	8.41
1988	6.67	4.05	4.28	7.94	10.34	9.58	10.94
1989	8.11	5.33	7.07	9.40	13.89	10.85	12.22
1990	7.49	7.59	8.43	10.32	14.77	10.67	11.47
1990 – Sept.	7.36	8.27	8.41	10.35	14.92	10.37	12.40
Oct.	7.17	8.01	8.54	10.04	14.03	10.21	12.36
Nov.	7.06	8.17	8.81	10.00	13.64	10.61	12.01
Dec.	6.74	8.14	9.11	10.27	13.81	11.64	11.47
1991 – Jan.	6.22	8.04	9.27	10.28	13.98	11.38	10.48
Feb.	5.94	7.99	9.01	9.79	13.26	11.43	9.72
Mar.	5.90	8.08	9.02	9.43	12.40	10.98	9.67
Apr.	5.65	7.95	9.12	9.35	11.95	10.67	9.24
May	5.46	7.79	9.00	9.23	11.53	10.23	8.81
June	5.57	7.76	8.99	9.71	11.24	10.19	8.65
July	5.58	7.40	9.10	9.59	11.10	10.68	8.66
Aug.	5.33	7.34	9.25	9.60	10.90	11.16	8.53
Sept.	5.22	6.83	9.22	9.43	10.29	10.77	8.34

Table a6

Long-term interest rates and share price indices

(period averages)

	US	Japan	Germany	France	UK	Italy	Canada
				Bond rates			
1987	8.38	4.53	5.84	9.43	9.48	10.58	10.34
1988	8.84	4.68	6.11	9.06	9.36	10.54	10.36
1989	8.50	5.25	7.03	8.79	9.58	11.61	9.69
1990	8.55	7.38	8.85	9.96	11.08	11.87	10.51
1990 – Sept.	8.89	8.43	9.10	10.52	11.32	11.60	11.54
Oct.	8.72	7.98	9.10	10.39	11.12	11.58	11.15
Nov.	8.39	7.66	9.00	10.24	10.94	11.69	10.70
Dec.	8.08	7.14	9.00	9.93	10.42	11.96	10.51
1991 – Jan.	8.09	6.85	9.10	9.79	10.22	12.04	10.22
Feb.	7.85	6.44	8.60	9.18	9.89	12.00	9.89
Mar.	8.11	6.61	8.50	9.06	10.06	11.69	9.88
Apr.	8.04	6.69	8.50	8.92	9.99	11.34	9.91
May	8.07	6.64	8.50	8.88	10.15	10.99	9.91
June	8.28	6.80	8.50	9.15	10.37	11.06	10.36
July	8.27	6.72	8.79	9.20	10.05	11.33	10.17
Aug.	7.90	6.48	8.77	(9.08)	(9.86)	11.41	9.97
Sept.	7.65	6.14	8.65	(8.87)	(9.52)	11.24	9.59
				Share price indices (1975=100)			
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
1990	392.88	699.73	337.38	675.47	820.88	1,008.71	342.11
1990 – Sept.	370.33	582.45	297.90	594.84	757.75	916.36	315.94
Oct.	360.60	564.03	288.33	586.91	758.32	879.34	308.13
Nov.	370.19	557.15	286.21	582.17	756.50	811.66	315.10
Dec.	385.99	560.05	293.13	589.35	781.77	822.67	325.68
1991 – Jan.	382.16	546.51	273.45	559.58	759.36	779.84	327.29
Feb.	425.33	601.26	297.04	601.67	822.86	845.83	346.24
Mar.	437.10	632.39	304.76	650.94	894.67	901.90	349.57
Apr.	445.80	638.90	312.40	663.20	914.50	919.49	346.88
May	443.90	629.40	319.10	662.80	904.30	905.42	354.61
June	444.16	606.72	328.12	662.38	900.58	937.11	346.58
July	446.40	580.90	314.10	636.00	907.90	882.90	353.96
Aug.	457.20	564.50	311.30	644.30	935.60	865.20	351.79
Sept.	454.60	571.30	311.90	672.80	951.20	846.30	....

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**				
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
1990	8.16	7.63	8.39	14.70	11.63	8.32	7.77	8.88	14.40	12.07
1990 – Sept. ...	8.07	8.28	8.36	14.86	10.38	8.18	8.62	8.90	14.37	11.57
Oct.	8.03	8.16	8.46	13.94	10.65	8.06	8.36	8.87	13.25	11.49
Nov.	8.04	8.24	8.83	13.58	11.54	7.91	8.28	9.08	12.57	11.60
Dec.	7.80	8.11	9.29	13.75	12.35	7.57	7.83	9.36	12.53	12.08
1991 – Jan.	7.23	8.04	9.23	13.88	12.13	7.30	7.52	9.46	12.89	12.21
Feb.	6.59	7.89	8.92	13.19	12.17	6.79	7.32	9.03	12.14	12.03
Mar.	6.46	8.02	8.98	12.34	11.86	6.94	7.35	9.03	11.55	11.82
Apr.	6.10	7.81	9.05	11.88	11.39	6.69	7.41	9.25	11.31	11.49
May	5.92	7.69	8.95	11.45	11.06	6.49	7.34	9.11	11.04	11.39
June	6.07	7.67	8.93	11.17	11.06	6.78	7.41	9.08	10.79	11.46
July	6.02	7.42	9.07	11.00	11.18	6.70	7.15	9.31	10.70	11.73
Aug.	5.63	7.20	9.20	10.82	11.41	6.03	6.76	9.42	10.59	11.88
Sept. ...	5.49	6.61	9.13	10.23	11.25	5.81	6.19	9.31	10.08	11.66
		3-month US dollar premium (–)/discount (+)					**12-month US dollar premium (–)/discount (+)**			
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
1990		0.53	–0.23	–6.54	–3.47		0.55	–0.56	–6.08	–3.75
1990 – Sept. ...		–0.21	–0.29	–6.79	–2.31		–0.44	–0.72	–6.19	–3.39
Oct.		–0.13	–0.43	–5.91	–2.62		–0.30	–0.81	–5.19	–3.43
Nov.		–0.20	–0.79	–5.54	–3.50		–0.37	–1.17	–4.66	–3.69
Dec.		–0.31	–1.49	–5.95	–4.55		–0.26	–1.79	–4.96	–4.51
1991 – Jan.		–0.81	–2.00	–6.65	–4.90		–0.22	–2.16	–5.59	–4.91
Feb.		–1.30	–2.33	–6.60	–5.58		–0.53	–2.24	–5.35	–5.24
Mar.		–1.56	–2.52	–5.88	–5.40		–0.41	–2.09	–4.61	–4.88
Apr.		–1.71	–2.95	–5.78	–5.29		–0.72	–2.56	–4.62	–4.80
May		–1.77	–3.03	–5.53	–5.14		–0.85	–2.62	–4.55	–4.90
June		–1.60	–2.86	–5.10	–4.99		–0.63	–2.30	–4.01	–4.68
July		–1.40	–3.05	–4.98	–5.16		–0.45	–2.61	–4.00	–5.03
Aug.		–1.57	–3.57	–5.19	–5.78		–0.73	–3.39	–4.56	–5.85
Sept. ...		–1.12	–3.64	–4.74	–5.76		–0.38	–3.50	–4.27	–5.85

9

Table a8

Lira exchange rates and the price of gold

	Lire per unit of currency								Gold (dollars per ounce)
	US dollar	Japanese yen	Deutsche-mark	French franc	Pound sterling	Swiss franc	SDR	Ecu	
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
1990	1,198.4	8.2983	741.60	220.09	2,133.2	864.13	1,626.0	1,524.8	385.00
1989 – 3rd qtr.	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	1,613.6	1,530.1	406.75
4th "	1,129.0	8.6432	751.52	223.04	2,197.3	887.95	1,618.1	1,549.3	385.00
1991 – 1st qtr.	1,149.0	8.5824	749.45	220.35	2,188.4	877.97	1,625.3	1,542.4	355.65
2nd "	1,287.4	9.3042	742.34	219.12	2,198.1	873.01	1,722.5	1,527.6	368.35
3rd "	1,303.1	9.5473	746.55	219.68	2,192.5	857.45	1,740.6	1,532.3	354.90
1990 – Sept.	1,171.6	8.4516	746.48	222.89	2,202.9	896.84	1,629.1	1,545.3	406.75
Oct.	1,142.2	8.8034	749.18	223.70	2,221.6	891.40	1,631.6	1,550.4	378.25
Nov.	1,116.3	8.6622	751.81	223.27	2,193.9	889.39	1,612.9	1,550.2	384.84
Dec.	1,127.0	8.4283	754.03	222.00	2,171.5	882.18	1,607.7	1,547.0	385.00
1991 – Jan.	1,135.4	8.4911	751.83	221.32	2,194.5	892.34	1,615.5	1,550.1	366.00
Feb.	1,111.0	8.5221	750.64	220.53	2,183.3	877.02	1,600.5	1,543.7	362.70
Mar.	1,199.5	8.7356	745.81	219.16	2,186.8	863.81	1,656.2	1,532.9	355.65
Apr.	1,261.0	9.2044	741.26	219.30	2,208.9	876.35	1,703.9	1,528.5	357.75
May	1,274.3	9.2265	742.34	218.94	2,199.8	875.97	1,712.0	1,526.3	360.40
June	1,327.6	9.4855	743.43	219.13	2,185.5	866.55	1,751.5	1,528.0	368.35
July	1,332.4	9.6611	744.66	219.41	2,194.5	859.30	1,760.8	1,530.3	362.85
Aug.	1,304.3	9.5347	747.54	219.99	2,195.0	857.88	1,742.1	1,534.4	347.40
Sept.	1,269.9	9.4354	747.63	219.67	2,188.0	854.99	1,718.9	1,532.6	354.90

Table a9

Nominal effective exchange rates

(period averages; indices, 1980=100)

	US	Canada	Japan	Germany	France	UK	Italy	Switzerland
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
1990	90.0	98.4	162.5	121.5	80.7	78.3	73.4	125.5
1989 – 3rd qtr.	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	128.3
4th "	84.6	96.9	174.5	122.4	81.3	80.7	72.8	128.1
1991 – 1st qtr.	85.7	97.8	171.7	122.3	80.3	80.4	72.9	126.9
2nd "	90.3	100.4	173.4	118.6	78.7	78.4	72.1	124.2
3rd "	90.4	101.0	174.6	118.9	78.7	77.8	71.8	121.3
1990 – Sept.	87.4	98.2	166.4	121.2	81.2	80.6	72.7	129.4
Oct.	84.6	97.1	176.5	121.5	81.3	81.3	72.6	128.2
Nov.	83.9	96.5	176.1	122.4	81.5	80.8	72.9	128.5
Dec.	85.1	97.2	170.8	123.4	81.1	80.0	73.0	127.5
1991 – Jan.	85.3	97.7	170.7	122.6	80.6	80.7	72.9	129.0
Feb.	84.0	97.3	174.0	123.0	80.6	80.8	73.2	127.3
Mar.	87.9	98.6	170.2	121.2	79.6	79.8	72.6	124.4
Apr.	89.5	99.7	173.6	118.8	79.0	79.2	72.4	125.0
May	89.9	100.2	173.0	118.7	78.8	78.6	72.1	124.8
June	91.5	101.4	173.4	118.2	78.4	77.3	71.8	122.6
July	91.4	100.9	175.9	118.1	78.4	77.4	71.7	121.2
Aug.	90.7	101.0	173.3	118.9	78.7	77.8	71.8	121.3
Sept.	89.2	101.1	174.4	119.6	78.9	78.1	72.1	121.5

Table a10

Real effective exchange rates

(period averages; indices, 1980=100)

	US	Canada	Japan	Germany	France	UK	Italy	Switzerland
1985	128.5	103.2	95.7	89.9	92.3	91.8	97.0	98.2
1986	103.3	99.2	120.9	97.6	98.3	90.1	100.0	103.8
1987	93.7	101.2	125.8	102.1	99.3	91.6	102.4	105.7
1988	88.2	108.6	134.5	100.5	98.4	98.8	100.0	104.4
1989	93.4	111.8	124.9	98.5	96.7	96.5	102.5	99.1
1990	91.7	108.4	111.6	102.1	100.1	98.8	107.0	103.5
1989 – 2nd qtr.	94.8	111.2	126.0	97.7	96.1	96.9	101.3	97.7
3rd "	94.8	112.3	122.6	97.7	96.6	95.8	103.5	99.2
4th "	93.7	111.9	119.3	100.2	97.9	92.8	104.8	98.8
1990 – 1st qtr.	93.7	109.2	112.0	102.2	99.8	94.2	106.6	100.3
2nd "	93.8	110.9	106.3	102.1	100.6	96.5	107.3	104.1
3rd "	90.8	108.9	109.8	101.8	100.0	102.5	107.1	106.1
4th "	88.6	104.4	118.4	102.4	100.2	102.0	107.1	103.7
1991 – 1st qtr.	87.3	106.9	118.5	102.7	99.3	104.1	108.5	103.0
2nd "	91.2	109.0	120.4	99.7	97.6	103.5	107.1	101.0
1990 – July	91.1	110.9	109.3	101.8	99.8	102.4	107.4	104.7
Aug.	90.7	109.4	107.2	102.2	99.9	103.7	107.7	107.2
Sept.	90.7	106.5	113.0	101.4	100.2	101.4	106.3	106.3
Oct.	89.5	103.5	118.8	101.6	100.2	102.0	106.3	103.9
Nov.	88.1	103.8	119.5	102.4	100.3	102.1	107.2	103.9
Dec.	88.1	105.8	116.9	103.2	100.0	101.8	107.9	103.4
1991 – Jan.	88.1	106.0	116.7	102.8	99.3	103.5	108.2	104.3
Feb.	85.5	106.4	120.2	103.3	99.8	104.5	109.2	103.5
Mar.	88.4	108.3	118.6	101.9	98.8	104.4	108.2	101.3
Apr.	90.1	108.8	120.8	100.0	97.9	104.5	107.4	101.8
May	90.9	108.6	120.1	99.8	97.6	104.0	107.2	101.7
June	92.6	109.7	120.3	99.3	97.2	102.1	106.6	99.7
July	92.4	108.8	121.9	100.1	97.0	102.4	106.3	98.5

Table a11

Real effective intra-EEC exchange rates

(period averages; indices, 1980=100)

	Belgium	France	Germany	UK	Netherlands	Italy	Spain
1985	94.5	98.8	98.2	104.0	98.8	104.0	101.9
1986	88.9	102.5	104.0	96.8	93.9	104.0	97.6
1987	87.2	101.6	106.5	95.1	93.6	104.6	94.5
1988	85.4	101.0	105.3	103.7	92.0	102.2	97.9
1989	87.3	99.8	103.4	102.6	92.3	105.5	103.0
1990	87.4	100.7	103.5	99.9	90.6	107.6	103.6
1989 – 2nd qtr.	87.1	99.6	103.2	103.9	92.9	104.7	102.4
3rd "	87.5	99.8	102.8	102.2	92.0	106.7	103.5
4th "	88.2	100.3	104.2	97.1	92.1	107.1	102.9
1990 – 1st qtr.	87.4	101.0	104.5	96.3	91.3	107.8	102.5
2nd "	87.3	101.3	103.7	97.7	90.1	108.1	104.6
3rd "	87.7	100.2	102.6	103.1	90.1	107.3	104.3
4th "	87.3	100.3	103.3	102.4	90.9	107.2	103.0
1991 – 1st qtr.	85.2	99.3	103.6	104.6	89.7	108.6	104.4
2nd "	85.0	99.3	102.9	107.6	88.1	108.9	104.2
1990 – July	86.4	100.2	102.9	103.5	89.1	107.9	105.5
Aug.	87.9	99.8	102.4	103.6	90.2	107.6	104.3
Sept.	88.7	100.6	102.5	102.3	90.9	106.6	103.1
Oct.	87.7	100.6	102.7	102.9	91.3	106.6	103.2
Nov.	87.0	100.4	103.3	102.5	90.9	107.2	103.0
Dec.	87.1	99.8	103.8	101.9	90.4	107.7	102.9
1991 – Jan.	86.0	99.2	103.6	103.8	90.7	108.2	103.7
Feb.	85.0	99.4	103.7	104.1	89.8	108.7	104.5
Mar.	84.7	99.3	103.4	106.0	88.7	108.8	105.0
Apr.	84.7	99.4	102.8	108.0	88.1	108.9	104.5
May	85.1	99.2	102.8	107.8	88.2	108.9	104.4
June	85.3	99.3	103.0	106.9	88.1	108.9	103.7
July	84.4	99.1	103.7	107.2	88.8	108.3	103.1

Table a12

External position of the Italian credit system

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

VIS-A-VIS	1990-Q4	1991-Q1	1991-Q2
Industrial countries	(209,958)	(213,990)	(205,758)
OPEC countries	(6,339)	(6,924)	(7,601)
Other developing countries	(9,701)	(11,257)	(11,823)
of which: Latin America	(5,845)	(6,397)	(6,670)
Africa	(1,094)	(1,334)	(1,377)
Asia	(2,161)	(2,853)	(2,949)
Middle East	(600)	(673)	(826)
Eastern Europe	(7,970)	(8,147)	(8,388)
Offshore centres	(20,901)	(26,987)	(27,531)
International organizations	(2,054)	(2,126)	(2,128)
Total	**(256,923)**	**(269,431)**	**(263,229)**
Memorandum item:			
Argentina	(1,933)	(2,025)	(2,282)
Bolivia	(6)	(7)	(9)
Brazil	(1,063)	(1,222)	(1,181)
Chile	(247)	(297)	(254)
Colombia	(110)	(120)	(139)
Ivory Coast	(49)	(38)	(26)
Ecuador	(176)	(197)	(192)
Philippines	(160)	(113)	(153)
Yugoslavia	(389)	(399)	(404)
Morocco	(370)	(563)	(578)
Mexico	(1,953)	(2,125)	(2,183)
Nigeria	(504)	(650)	(1,063)
Peru	(133)	(142)	(151)
Uruguay	(66)	(72)	(92)
Venezuela	(684)	(725)	(744)
Total	**(7,843)**	**(8,695)**	**(9,451)**
Bulgaria	(487)	(567)	(618)
Czechoslovakia	(146)	(126)	(115)
Poland	(1,749)	(1,842)	(1,925)
Romania	(5)	(7)	(10)
Hungary	(413)	(393)	(461)
USSR	(5,101)	(5,135)	(5,187)

Table a13

Sources and uses of income

(% changes on previous period, at 1985 prices)

	SOURCES			USES					
				Gross fixed investment					
	GDP	Imports	Total	Building	Machinery, equipment and vehicles	Total	House-holds' consum-ption	Other domestic uses	Exports
1985	2.6	3.9	2.8	–0.5	2.0	0.6	3.0	4.5	3.2
1986	2.9	2.9	2.9	1.9	2.5	2.2	3.7	1.6	2.5
1987	3.1	8.9	4.2	–0.7	11.5	5.0	4.2	3.1	4.4
1988	4.1	7.0	4.6	2.3	11.6	6.9	4.2	2.4	5.7
1989	3.0	9.0	4.2	3.9	5.2	4.6	3.6	–0.7	10.0
1990	2.0	6.7	2.9	2.5	3.5	3.0	2.7	–2.3	7.5
1989 – 2nd qtr. ...	0.9	1.0	0.9	0.8	0.5	0.6	0.9	–5.5	6.4
3rd " ...	1.0	0.4	0.8	1.2	0.6	0.9	0.3	3.7	0.1
4th " ...	0.4	0.5	0.4	1.7	0.3	0.9	0.6	–2.3	1.2
1990 – 1st qtr. ...	0.8	5.0	1.7	1.0	2.6	1.8	0.5	7.6	0.7
2nd " ...	–0.3	1.1	..	–0.6	0.7	0.1	1.1	–10.5	5.0
3rd " ...	0.6	–0.6	0.4	–0.3	–0.2	–0.2	0.7	0.9	–0.2
4th " ...	0.2	0.8	0.3	0.3	–0.9	–0.3	0.5	–2.0	2.2
1991 – 1st qtr. ...	0.2	1.1	0.4	..	0.9	0.5	0.6	0.5	–0.4
2nd " ...	0.3	2.0	0.7	0.6	–0.8	–0.1	1.5	3.9	–2.8

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	Intermedi-ate 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)				
1986	103.6	102.5	108.4	102.7	–18.8	–23.9	–18.0	11.2	4.9
1987	107.6	105.9	110.3	107.7	–8.4	–25.4	–9.1	10.9	–0.8
1988	114.1	111.6	119.6	113.6	3.3	–9.6	2.9	18.6	–7.5
1989	117.6	114.6	123.1	117.5	0.5	–5.7	2.8	22.9	–4.1
1990	117.8	115.7	125.4	116.5	–9.3	–16.1	–7.4	11.8	3.7
1987 – 2nd qtr. ..	108.4	106.4	112.0	108.6	–8.9	–27.6	–10.7	9.6	1.7
3rd " ..	107.7	105.6	108.5	107.7	–7.5	–26.4	–8.3	11.0	–4.3
4th " ..	109.2	106.6	113.0	109.4	–5.0	–22.3	–5.3	9.5	–4.3
1988 – 1st qtr. ..	112.6	110.5	117.0	112.6	–2.3	–16.5	–1.8	9.9	–2.7
2nd " ..	113.1	110.3	119.0	112.4	1.3	–10.2	0.9	14.8	–7.0
3rd " ..	114.5	112.0	122.1	113.7	5.5	–8.4	4.5	21.6	–8.7
4th " ..	116.0	113.3	120.5	115.8	8.7	–3.4	7.9	28.0	–11.7
1989 – 1st qtr. ..	115.8	112.4	120.6	115.7	5.8	–2.9	9.0	25.0	–8.0
2nd " ..	116.6	114.4	119.7	116.2	–0.5	–6.3	1.6	23.2	–1.7
3rd " ..	118.1	115.9	124.2	118.3	–2.1	–4.1	1.0	22.3	–4.3
4th " ..	120.1	115.6	127.9	119.7	–1.3	–9.6	–0.5	21.2	–2.3
1990 – 1st qtr. ..	118.5	114.6	126.8	117.4	–0.8	–9.7	–1.2	17.9	–2.0
2nd " ..	118.5	114.8	127.2	117.2	–5.0	–9.6	–1.9	16.4	2.3
3rd " ..	118.3	117.0	126.2	117.4	–11.2	–20.5	–9.2	5.2	6.7
4th " ..	115.8	116.3	121.3	114.0	–20.4	–24.5	–17.4	7.4	7.7
1991 – 1st qtr. ..	116.6	116.5	121.0	115.1	–29.4	–34.1	–28.1	10.6	9.7
2nd " ..	115.9	115.5	119.9	114.9	–27.6	–32.8	–27.9	12.4	9.7

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			Official	Adjusted for wage supple-mentation	
1986	2,242	4,940	1,883	11,795	20,861	2,611	23,468	11.1	12.7	41.5
1987	2,169	4,867	1,849	11,952	20,837	2,832	23,669	12.0	13.3	41.8
1988	2,053	4,928	1,823	12,181	20,984	2,868	23,852	12.0	13.0	42.0
1989	1,946	4,953	1,801	12,305	21,004	2,866	23,870	12.0	12.7	42.0
1990	1,895	4,986	1,859	12,564	21,304	2,621	23,926	11.0	11.7	42.0
1987 – 3rd qtr.	2,130	4,872	1,845	11,982	20,828	2,894	23,722	12.2	13.5	41.8
4th "	2,093	4,886	1,815	12,078	20,873	2,891	23,764	12.2	13.3	41.9
1988 – 1st qtr.	2,091	4,916	1,816	12,155	20,979	2,885	23,864	12.1	13.2	42.1
2nd "	2,070	4,932	1,825	12,191	21,018	2,866	23,884	12.0	13.0	42.1
3rd "	2,016	4,941	1,829	12,207	20,993	2,850	23,843	12.0	12.9	42.0
4th "	1,971	4,926	1,828	12,226	20,951	2,868	23,819	12.0	12.9	41.9
1989 – 1st qtr.	1,944	4,927	1,778	12,282	20,930	2,893	23,823	12.1	13.0	41.9
2nd "	1,930	4,960	1,773	12,307	20,971	2,896	23,867	12.1	13.0	42.0
3rd "	1,950	4,981	1,823	12,328	21,082	2,836	23,918	11.9	12.6	42.1
4th "	1,966	5,007	1,848	12,381	21,202	2,734	23,935	11.4	12.2	42.1
1990 – 1st qtr.	1,944	5,030	1,861	12,454	21,290	2,641	23,931	11.0	11.8	42.1
2nd "	1,894	4,970	1,856	12,603	21,323	2,602	23,925	10.9	11.6	42.0
3rd "	1,846	4,942	1,857	12,675	21,320	2,601	23,922	10.9	11.7	42.0
4th "	1,830	4,986	1,881	12,726	21,422	2,569	23,991	10.7	11.6	42.0
1991 – 1st qtr.	1,817	5,025	1,928	12,815	21,585	2,686	24,270	11.1	12.0	42.5
2nd "	1,845	4,974	1,965	12,847	21,631	2,640	24,272	10.9	11.8	42.5

Table a16

Wholesale and consumer prices

(% changes on corresponding period)

	Wholesale prices				Consumer prices				Cost of living	*Scala mobile* index
	Consumer goods	Investment goods	Intermediate goods	Total	Food	Non-food products	Services	Total		
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
1990	5.7	5.5	8.3	7.4	6.2	5.9	7.3	6.5	6.1	7.2
1989 – 3rd qtr.	....	....	....	....	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 "	5.5	5.8	10.2	8.6	6.5	6.0	7.3	6.5	6.1	7.3
4th "	5.9	5.3	11.9	9.9	6.2	6.4	7.4	6.7	6.4	7.7
1991 – 1st qtr.	6.8	5.1	9.6	8.5	6.4	6.0	6.9	6.4	6.6	7.9
2nd "	6.8	4.4	8.0	7.5	6.6	6.1	7.4	6.6	6.8	8.1
3rd "	....	....	....	....	....	....	....	....	6.4	8.1
1990 – Sept.	5.3	6.1	13.7	10.9	6.4	6.5	7.3	6.7	6.3	7.5
Oct.	5.4	5.7	15.5	12.1	6.3	6.6	7.2	6.8	6.2	7.4
Nov.	6.2	5.2	11.2	9.4	6.2	6.6	7.5	6.8	6.5	7.8
Dec.	6.1	5.0	9.1	8.1	6.2	6.1	7.5	6.6	6.4	7.8
1991 – Jan.	6.0	5.1	8.7	7.8	6.8	5.6	6.6	6.3	6.5	7.9
Feb.	6.9	5.4	11.3	9.7	6.1	6.2	6.8	6.4	6.7	8.1
Mar.	7.4	4.8	8.7	8.1	6.5	6.1	7.2	6.6	6.6	7.7
Apr.	6.6	4.8	7.8	7.3	6.5	6.1	7.2	6.6	6.7	7.8
May	6.9	4.2	8.7	7.9	6.6	6.1	7.5	6.7	6.8	8.0
June	6.9	4.3	7.6	7.2	6.6	6.1	7.4	6.6	6.9	8.4
July	6.8	4.1	7.3	6.9	....	....	....	6.7	6.7	8.6
Aug.	....	....	....	....	....	....	....	....	6.3	8.0
Sept.	....	....	....	....	....	....	....	....	6.2	7.8

Table a17

Balance of payments on a settlements basis

(billions of lire)

	Goods (*cif-fob*)	Services and transfers: Foreign travel	Services and transfers: Income from capital	Services and transfers: Other	Services and transfers: Total	Balance on current account	Non-bank capital flows	Bank capital flows	Errors and omissions	Change in official reserves
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
1990	–19,469	7,085	–17,301	421	–9,795	–29,264	29,504	22,973	–8,055	–15,158
1990 – Aug. ...	57	745	–963	268	50	107	1,490	–1,013	74	–658
Sept. ..	–1,582	560	–1,194	324	–310	–1,892	4,168	–3,171	441	454
Oct. ...	–2,544	750	–2,159	–196	–1,605	–4,149	2,871	3,264	–4,312	2,326
Nov. ...	–2,787	560	–1,604	660	–384	–3,171	–4,033	2,610	–381	4,975
Dec. ...	–3,242	586	–1,683	–326	–1,423	–4,665	–1,332	5,175	–228	1,050
1991 – Jan. ...	(–2,311)	(303)	(–1,601)	(153)	(–1,145)	(–3,456)	(3,309)	(537)	(–1,184)	(794)
Feb. ...	(–3,249)	(299)	(–772)	(–510)	(–983)	(–4,232)	(7,289)	(–736)	(71)	(–2,392)
Mar. ...	(–2,314)	(966)	(–1,720)	(–407)	(–1,161)	(–3,475)	(5,682)	(2,925)	(1,048)	(–6,180)
Apr. ...	(–2,698)	(1,092)	(–2,257)	(–79)	(–1,244)	(–3,942)	(3,215)	(628)	(–662)	(761)
May ...	(–2,119)	(1,095)	(–1,969)	(–262)	(–1,136)	(–3,255)	(–5,299)	(5,140)	(2,186)	(1,228)
June ...	(–2,594)	(1,123)	(–1,725)	(–84)	(–686)	(–3,280)	(–7,985)	(10,941)	(189)	(135)
July ...	....	....	....	....	....	....	(–6,663)	(9,106)	....	(969)
Aug. ...	....	....	....	....	....	....	(–2,632)	(2,398)	....	(906)

Balance of payments on a transactions basis

(billions of lire)

	Goods (*cif-fob*)	Services and transfers: Foreign travel	Services and transfers: Income from capital	Services and transfers: Other	Services and transfers: Total	Balance on current account	Non-bank capital flows	Bank capital flows	Errors and omissions	Change in official reserves
1987	–392	9,902	–8,573	–2,333	–1,004	–1,396	6,149	5,573	–3,551	–6,775
1988	–1,501	8,349	–9,278	–5,084	–6,013	–7,514	11,108	10,224	–2,912	–10,906
1989	–2,956	7,151	–11,366	–7,397	–11,612	–14,568	18,963	14,979	–3,988	–15,386
1990	563	7,085	–16,001	–8,990	–17,906	–17,343	24,890	22,973	–15,362	–15,158
1989 – 2nd qtr. .	–972	2,453	–3,290	153	–684	–1,656	8,000	–856	–1,324	–4,164
3rd " .	2,315	3,131	–2,908	–2,460	–2,237	78	10,625	2,237	–4,732	–8,208
4th " .	1,727	943	–2,987	–1,646	–3,690	–1,963	–5,947	2,313	1,625	3,972
1990 – 1st qtr. .	–5,323	708	–3,100	–3,684	–6,076	–11,399	7,888	9,967	–552	–5,904
2nd " .	1,615	2,076	–4,301	–2,043	–4,268	–2,653	19,938	4,747	–6,570	–15,462
3rd " .	3,509	2,405	–3,804	–1,250	–2,649	860	4,857	–2,790	–784	–2,143
4th " .	762	1,896	–4,796	–2,013	–4,913	–4,151	–7,793	11,049	–7,456	8,351
1991 – 1st qtr. .	(–2,737)	(1,568)	(–4,093)	(–3,469)	(–5,994)	(–8,731)	(15,216)	(2,726)	(–1,433)	(–7,778)
2nd " .	(–1,156)	(3,310)	(–5,301)	(–2,878)	(–4,869)	(–6,025)	(–12,638)	(16,709)	(–170)	(2,124)

Table a18

External position of BI-UIC

	Short-term position								
	Assets								
	Gold	Convertible currencies	Ecus	SDRs	Reserve position in the IMF	Liabilities	Balances	Medium and long-term position	Overall position
	(billions of lire)								
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	33,663	44,847	11,409	1,268	1,834	401	92,620	620	93,240
1990 – Aug.	31,021	67,386	10,210	1,311	1,675	382	111,221	808	112,029
Sept.	28,762	67,490	10,248	1,330	1,690	449	109,071	933	110,004
Oct.	28,762	64,781	10,479	1,329	1,664	458	106,557	1,232	107,789
Nov.	28,762	59,256	10,437	1,328	1,647	387	101,043	1,514	102,557
Dec.	30,580	57,579	10,433	1,172	1,937	398	101,303	2,102	103,405
1991 – Jan.	(30,580)	(56,377)	(10,066)	(1,169)	(2,197)	(434)	(99,955)	(2,037)	(101,992)
Feb.	(30,580)	(57,863)	(10,005)	(1,207)	(2,261)	(682)	(101,234)	(3,208)	(104,442)
Mar.	(29,443)	(63,797)	(9,981)	(1,234)	(2,477)	(232)	(106,700)	(4,668)	(111,368)
Apr.	(29,443)	(61,070)	(10,947)	(1,225)	(2,491)	(348)	(104,828)	(5,732)	(110,560)
May	(29,443)	(58,692)	(10,978)	(1,260)	(2,492)	(284)	(102,581)	(6,955)	(109,536)
June	(28,367)	(58,470)	(11,002)	(1,300)	(2,511)	(221)	(101,429)	(8,013)	(109,442)
July	(28,367)	(57,045)	(11,587)	(1,175)	(2,465)	(262)	(100,377)	(8,315)	(108,692)
Aug.	(28,367)	(55,721)	(11,582)	(1,179)	(2,572)	(287)	(99,134)	(8,600)	(107,734)
	(millions of dollars)								
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	26,496	35,299	8,980	998	1,444	316	72,901	488	73,389
1990 – Aug.	25,296	58,121	8,806	1,131	1,445	329	94,470	697	95,167
Sept.	24,570	57,654	8,754	1,136	1,444	384	93,175	797	93,972
Oct.	24,570	56,890	9,203	1,167	1,461	402	92,889	1,082	93,971
Nov.	24,570	52,439	9,236	1,175	1,458	342	88,535	1,340	89,875
Dec.	27,060	50,950	9,232	1,037	1,714	352	89,641	1,860	91,501
1991 – Jan.	(27,060)	(50,445)	(9,007)	(1,046)	(1,966)	(388)	(89,135)	(1,823)	(90,958)
Feb.	(27,060)	(50,909)	(8,803)	(1,062)	(1,989)	(600)	(89,223)	(2,822)	(92,045)
Mar.	(23,238)	(50,353)	(7,878)	(974)	(1,955)	(183)	(84,214)	(3,684)	(87,899)
Apr.	(23,238)	(47,685)	(8,548)	(957)	(1,945)	(272)	(82,100)	(4,476)	(86,576)
May	(23,238)	(45,817)	(8,570)	(984)	(1,945)	(222)	(80,332)	(5,429)	(85,762)
June	(21,047)	(43,382)	(8,163)	(965)	(1,863)	(164)	(75,255)	(5,945)	(81,201)
July	(21,047)	(43,739)	(8,884)	(901)	(1,890)	(201)	(76,261)	(6,376)	(82,636)
Aug.	(21,047)	(42,859)	(8,909)	(907)	(1,978)	(221)	(75,479)	(6,615)	(82,094)

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
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	257,274	54,801	312,074	366,805	66,043	432,848	–120,774	–4,869	–125,643	–124,911	–64
1989	293,462	60,531	353,993	394,547	70,172	464,719	–110,727	–23,127	–133,854	–133,400	–1,064
1990	329,971	76,893	406,863	465,810	69,630	535,441	–128,577	–16,684	–145,261	–140,680	–249
1989 – 3rd qtr. .	57,570	15,079	72,650	87,407	13,362	100,769	–28,120	–11,359	–39,479	–39,479	–26
4th " .	88,160	23,884	112,044	136,359	34,005	170,364	–58,320	8,050	–50,270	–50,270	–89
1990 – 1st qtr. .	71,601	10,548	82,149	70,676	6,197	76,873	5,277	–30,364	–25,088	–25,088	–145
2nd " .	90,030	16,667	106,697	142,304	18,075	160,380	–53,683	30,967	–22,716	–22,716	..
3rd " .	73,244	17,403	90,647	106,855	16,601	123,456	–32,810	–2,826	–35,635	–35,635	–69
4th " .	95,097	32,274	127,371	145,975	28,757	174,732	–47,361	–14,461	–61,823	–57,241	–35
1991 – 1st qtr. .	75,852	12,025	87,877	79,781	8,214	87,995	–118	–33,253	–33,372	–33,372	–5
2nd " .	96,348	15,992	112,340	165,521	16,235	181,757	–69,416	44,215	–25,202	–25,202	–1
3rd " .	84,303	20,448	104,751	123,607	15,886	139,493	–34,741	–11,272	–46,013	–46,013	–29
1990 – Sept.	16,764	1,660	18,425	25,655	2,335	27,990	–9,566	–9,157	–18,722	–18,722	–47
Oct.	21,348	5,738	27,086	52,825	3,232	56,057	–28,971	4,822	–24,149	–19,568	–12
Nov.	30,575	6,934	37,509	33,103	8,150	41,253	–3,744	–15,197	–18,941	–18,941	–2
Dec.	43,174	19,602	62,776	60,048	17,374	77,422	–14,646	–4,087	–18,733	–18,733	–21
1991 – Jan.	30,588	1,114	31,702	26,306	657	26,963	4,739	–9,846	–5,106	–5,106	..
Feb.	20,152	4,629	24,781	28,235	1,431	29,666	–4,885	–3,730	–8,614	–8,614	–4
Mar.	25,112	6,282	31,394	25,240	6,126	31,367	28	–19,678	–19,651	–19,651	–1
Apr.	21,038	4,605	25,643	50,105	4,094	54,199	–28,556	11,860	–16,696	–16,696	..
May	30,305	5,695	36,000	82,325	7,596	89,921	–53,922	37,415	–16,507	–16,507	..
June	45,006	5,692	50,698	33,091	4,545	37,636	13,062	–5,060	8,002	8,002	–1
July	33,597	5,717	39,313	40,058	8,183	48,240	–8,927	–2,678	–11,605	–11,605	–21
Aug.	28,576	10,053	38,629	50,488	2,332	52,820	–14,191	2,262	–11,930	–11,930	–8
Sept.	22,131	4,678	26,809	33,061	5,371	38,432	–11,623	–10,856	–22,479	–22,479	..

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: net purchases by BI-UIC		of which: net purchases by BI-UIC	Total	of which: Treasury overdraft with BI					of which: borrowings from BI-UIC
1985	93,207	8,772	13,181	15,018	3,689	6,340	9,067	2,937	532	122,613	27,479
1986	87,072	7,904	9,697	1,402	1,673	4,525	11,267	856	–407	110,159	10,980
1987	56,090	1,311	27,482	–4,515	10,224	9,274	12,917	6,066	1,470	114,250	7,020
1988	60,972	4,215	41,982	–5,274	3,704	4,331	10,996	4,227	3,763	125,643	2,645
1989	59,191	8,052	43,143	–2,981	1,835	1,842	15,364	8,397	5,923	133,854	6,906
1990	69,799	–8,096	40,515	6,205	2,811	2,909	12,770	14,914	4,451	145,261	920
1989 – 3rd qtr.	16,314	–3,451	8,133	–2,555	6,980	6,538	1,923	3,875	2,254	39,479	974
4th "	21,417	6,916	12,997	1,076	5,296	5,148	9,914	754	–109	50,270	13,288
1990 – 1st qtr.	8,759	2,584	8,558	–5,077	2,127	1,811	2,660	2,334	649	25,088	–365
2nd "	24,439	–7,462	7,972	3,789	–16,576	–16,757	819	4,773	1,289	22,716	–20,249
3rd "	7,987	–4,703	8,901	–1,848	12,125	12,849	733	4,891	999	35,635	5,574
4th "	28,614	1,485	15,083	9,340	5,136	5,005	8,559	2,916	1,515	61,823	15,960
1991 – 1st qtr.	20,616	6,032	4,044	–3,231	–878	–1,399	1,585	6,747	1,259	33,372	1,923
2nd "	34,161	2,829	–770	–5,353	–8,214	–7,487	–33	–308	364	25,202	–10,737
3rd "	26,853	–5,193	4,907	675	10,921	11,217	654	–211	2,890	46,013	6,402
1990 – Sept.	744	–6,911	6,251	–3,120	10,851	10,825	840	13	23	18,722	821
Oct.	10,166	1,428	5,810	–428	5,840	5,596	1,021	1,214	98	24,149	6,840
Nov.	8,952	2,341	3,632	2,957	6,687	6,740	–1,926	1,056	539	18,941	11,985
Dec.	9,496	–2,284	5,641	6,811	–7,391	–7,330	9,463	646	878	18,733	–2,865
1991 – Jan.	3,854	5,821	–213	–3,735	850	777	1,055	191	–630	5,106	2,936
Feb.	8,354	3,612	3,006	2,810	–7,909	–7,581	573	2,552	2,038	8,614	–1,487
Mar.	8,408	–3,400	1,250	–2,305	6,180	5,405	–43	4,005	–150	19,651	475
Apr.	12,164	–4,676	210	–1,998	4,961	5,127	–591	–62	15	16,696	–1,713
May	13,241	296	250	–1,351	2,783	4,189	414	–268	87	16,507	1,728
June	8,756	7,209	–1,229	–2,003	–15,958	–16,802	145	23	263	–8,002	–10,752
July	7,643	2,266	405	719	3,508	3,733	–510	–353	912	11,605	6,492
Aug.	8,252	–175	2,001	207	–208	–347	814	195	875	11,930	–176
Sept.	10,958	–7,284	2,501	–251	7,621	7,831	350	–53	1,102	22,479	86

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
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	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 " ..	359,336	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	86,783	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. ..	491,939	257,762	97,000	44,588	2,749	894,039	139,904	1,033,943	1,011,786
2nd " ..	501,706	262,129	98,400	47,666	2,807	912,709	133,209	1,045,918	1,024,469
3rd " ..	522,273	273,266	100,323	48,616	2,842	947,320	133,939	1,081,259	1,060,927
4th " ..	534,939	284,976	110,237	52,899	2,844	985,895	147,474	1,133,369	1,111,328
1990 – 1st qtr. ..	540,438	299,333	112,897	54,551	2,901	1,010,119	147,154	1,157,273	1,135,710
2nd " ..	574,814	302,313	113,716	56,095	2,995	1,049,932	126,564	1,176,496	1,154,365
3rd " ..	588,324	313,184	114,449	53,542	3,058	1,072,556	131,858	1,204,415	1,186,687
4th " ..	616,967	318,949	123,007	60,248	3,032	1,122,202	147,752	1,269,954	1,247,170
1991 – Mar.	631,884	326,158	124,592	63,875	3,133	1,149,642	149,722	1,299,364	1,275,323
Apr.	649,005	328,317	124,001	65,222	3,198	1,169,742	147,894	1,317,636	1,292,199
May	662,312	329,440	124,415	66,034	3,240	1,185,442	149,554	1,334,995	1,309,290
June	664,519	330,231	124,560	66,650	3,274	1,189,233	138,932	1,328,165	1,301,573
July	669,670	329,934	124,050	67,360	3,317	1,194,331	145,457	1,339,788	1,314,058
Aug.	678,600	331,724	124,864	68,160	3,341	1,206,689	145,374	1,352,063	1,326,385

Table a22.1

Monetary base

(changes in billions of lire)

	SOURCES					TOTAL	USES				
								Bank reserves			
	Foreign sector	Treasury	Open market	Refi-nancing	Other sectors		Currency in circulation	Deposits with the Bank of Italy	of which: compulsory reserves	Other	Total
1988	10,947	13,349	–10,601	–30	–707	12,957	4,450	8,770	9,444	–264	8,507
1989	14,971	8,452	–2,106	1,203	–2,015	20,505	10,507	9,746	9,567	252	9,998
1990	15,454	–1,383	2,393	1,260	–4,048	13,675	1,780	10,745	13,026	1,150	11,895
1990 – Sept. ..	–504	12,016	–11,188	–2	–915	–594	1,143	–215	–192	–1,522	–1,736
Oct. ...	–2,332	5,252	1,597	–40	–1,363	3,114	–1,643	2,356	2,452	2,401	4,757
Nov. ...	–4,999	2,044	9,950	11	69	7,075	1,820	6,544	2,248	–1,289	5,255
Dec. ...	–1,015	–6,353	3,495	2,660	1,743	529	5,537	–6,176	–16	1,167	–5,008
1991 – Jan. ...	–832	–2,206	5,148	–2,604	–28	–522	–3,396	4,801	2,847	–1,926	2,875
Feb. ...	2,397	–7,886	6,408	2,917	–787	3,049	255	3,351	4,921	–557	2,794
Mar. ...	5,995	4,579	–4,098	–3,040	–1,283	2,153	2,465	–2,713	–3,270	2,401	–312
Apr. ...	–600	3,695	–5,396	37	–986	–3,251	–2,757	–1,253	–1,594	760	–494
May ...	–1,226	1,929	–191	106	155	774	469	894	–319	–590	305
June ...	–131	–18,568	7,820	309	2,975	–7,593	2,412	–8,427	–4,858	–1,578	–10,005
July ...	–801	4,413	2,094	1,010	–294	6,420	2,070	3,064	–1,286	1,286	4,350
Aug. ...	–1,085	–2,388	2,218	–1,455	–360	(–3,070)	(–2,418)	321	2,140	(–974)	(–653)
Sept. ..	(–128)	(6,671)	(–6,580)	(–991)	(–1,200)	(–2,228)	(1,343)	(–2,855)	(–1,089)	(–717)	(–3,571)

Monetary base financing of the Treasury

(changes in billions of lire)

	Borrowing requirement	NON-MONETARY FINANCING						Treasury monetary base
		Net sales of securities on the primary market				Other forms of financing	Total	
		Treasury bills	Treasury credit certificates	Other	Total			
1988	125,644	–29,045	9,597	–73,932	–93,380	–18,914	–112,293	13,349
1989	133,853	–36,298	–18,757	–40,729	–95,784	–29,619	–125,401	8,453
1990	145,262	–39,336	–59,193	–16,120	–114,647	–31,998	–146,643	–1,383
1990 – Sept.	18,722	–6,266	–4,300	4,729	–5,836	–870	–6,706	12,016
Oct.	24,149	–6,078	–7,427	–3,068	–16,573	–2,325	–18,897	5,252
Nov.	18,941	–3,110	–6,148	–7,989	–17,247	351	–16,897	2,044
Dec.	18,733	–2,438	–3,610	–8,082	–14,129	–10,957	–25,086	–6,353
1991 – Jan.	5,106	–1,092	–107	–5,504	–6,703	–609	–7,312	–2,206
Feb.	8,614	–3,023	132	–8,456	–11,347	–5,153	–16,500	–7,886
Mar.	19,651	–2,348	280	–9,198	–11,266	–3,806	–15,072	4,579
Apr.	16,696	–1,507	–2,416	–9,729	–13,651	650	–13,001	3,695
May	16,507	–1,141	–1,446	–11,769	–14,356	–222	–14,578	1,929
June	–8,002	–2,080	–489	–7,572	–10,141	–426	–10,566	–18,568
July	11,605	188	55	–7,399	–7,157	–35	–7,192	4,413
Aug.	11,930	–3,289	–2,242	–6,908	–12,439	–1,878	–14,317	–2,388
Sept.	22,478	–2,145	(–2,474)	(–9,795)	(–14,414)	–1,393	(–15,807)	(6,671)

Table a22.2

Monetary base

(billions of lire)

	SOURCES						
		BI-UIC financing of the Treasury					
	Foreign sector	Total	of which: government securities and Treasury c/c	of which: Treasury overdraft with BI	Memorandum item: undrawn overdraft facility	Refinancing	Other sectors
1987	19,310	138,356	71,713	61,981	1,101	3,699	–9,262
1988	30,257	140,722	70,302	66,312	4,341	3,669	–9,588
1989	45,228	146,810	74,489	68,155	1,658	4,872	–11,345
1990 – Sept.	69,029	131,835	61,773	66,058	9,100	3,501	–15,842
Oct.	66,696	138,683	62,773	71,654	4,914	3,461	–17,205
Nov.	61,697	150,677	68,071	78,394	–1,360	3,472	–17,136
Dec.	60,682	147,817	72,596	71,063	6,266	6,132	–15,391
1991 – Jan.	59,850	150,759	74,682	71,840	9,396	3,527	–15,419
Feb.	62,247	149,282	81,103	64,260	17,307	6,445	–16,206
Mar.	68,242	149,763	75,397	69,664	11,981	3,405	–17,489
Apr.	67,642	148,061	68,723	74,791	6,944	3,441	–18,475
May	66,417	149,799	67,668	78,980	2,783	3,547	–18,321
June	66,286	139,052	72,874	62,178	19,606	3,857	–15,345
July	65,484	145,558	75,858	65,911	16,048	4,866	–15,639
Aug.	64,399	145,388	75,890	65,563	16,459	3,411	–15,999
Sept.	(64,271)	(145,479)	(68,355)	(73,394)	(8,628)	(2,420)	(–17,199)

	USES						
	Currency in circulation		Bank reserves				
			Deposits with te Bank of Italy				
	Total	of which: notes and coin		of which: compulsory reserves	Other	Total	Total monetary base
1987	52,730	52,613	94,465	93,455	4,908	99,373	152,103
1988	57,180	56,955	103,235	102,898	4,644	107,880	165,060
1989	67,687	67,473	112,981	112,465	4,897	117,878	185,565
1990 – Sept.	63,754	63,613	121,002	120,807	3,767	124,768	188,522
Oct.	62,110	62,015	123,358	123,259	6,168	129,526	191,636
Nov.	63,930	63,853	129,902	125,507	4,879	134,781	198,711
Dec.	69,467	69,338	123,726	125,491	6,047	129,773	199,240
1991 – Jan.	66,070	65,932	128,527	128,338	4,120	132,648	198,718
Feb.	66,325	66,210	131,879	133,258	3,563	135,442	201,767
Mar.	68,790	68,628	129,166	129,988	5,965	135,130	203,920
Apr.	66,033	65,955	127,912	128,394	6,724	134,637	200,669
May	66,502	66,349	128,806	128,074	6,135	134,941	201,443
June	68,914	68,802	120,379	123,216	4,557	124,936	193,849
July	70,984	70,800	123,443	121,930	5,842	129,286	200,270
Aug.	(68,566)	(68,417)	123,765	124,070	(4,868)	(128,633)	(197,199)
Sept.	(69,909)	(69,837)	(120,910)	(122,981)	(4,152)	(125,062)	(194,971)

Monetary base and BI operations:

(billions

	MONETARY BASE				
		Bank reserves			
	Currency in circulation	Deposits with the Bank of Italy	of which: excess reserves	Cash	Undrawn advances facilities (?)
1988	56,916	103,652	628	3,229	2,182
1989	62,534	113,308	748	3,847	2,017
1990 – Sept.	63,166	121,313	567	2,775	2,267
Oct.	62,302	123,435	165	3,120	2,802
Nov.	64,280	125,679	186	3,311	945
Dec.	68,602	125,698	197	5,357	897
1991 – Jan.	66,290	128,465	152	3,391	593
Feb.	66,134	133,390	131	3,240	603
Mar.	67,141	130,122	134	3,210	2,725
Apr.	65,922	128,575	125	3,539	3,071
May	66,620	128,213	139	3,406	2,680
June	68,044	123,541	174	3,021	2,223
July	70,546	122,084	154	3,804	1,838
Aug.	69,093	124,227	21	(3,476)	1,427
Sept.	69,371	123,111	130	(3,014)	1,692

Table a23

averages of daily data

of lire)

				BI OPERATIONS			
				Repurchases agreements			
Total	Percentage changes (over 12 months)	TOTAL	Percentage changes (over 12 months)	Purchases	Sales	TOTAL	Ordinary and fixed term advances
109,063	7.4	165,979	7.4	158	4,881	–4,722	1,572
119,171	9.2	181,705	9.5	1,905	277	1,628	2,158
126,355	8.8	189,521	9.3	100	8,177	–8,076	948
129,356	8.7	191,658	9.3	428	3,423	–2,996	432
129,935	8.3	194,216	8.8	6,184	947	5,237	3,338
131,952	10.4	200,555	10.1	1,912	1,052	861	4,447
132,449	2.4	198,739	4.9	6,538	2,115	4,423	3,100
137,234	9.0	203,368	9.5	12,405	43	12,362	3,375
136,057	9.3	203,197	9.4	11,454	153	11,301	517
135,185	8.1	201,107	8.0	4,801	227	4,575	150
134,298	7.6	200,918	8.4	10,492	202	10,290	934
128,785	11.0	196,829	10.6	10,827	208	10,618	1,165
127,726	6.7	198,272	7.4	8,148	121	8,027	2,521
(129,130)	(7.1)	(198,223)	(7.8)	8,945	214	8,731	2,029
(127,816)	(7.8)	(197,187)	(8.5)	3,608	341	3,267	456

Table a24

BI-UIC operations in government securities

(billions of lire)

	PRIMARY MARKET		OPEN MARKET				VARIATIONS IN BI-UIC PORTFOLIO
				of which: repurchase agreements			
	subscriptions	redemptions		temporary purchases	temporary sales	other	
			Treasury bills				
1988	24,012	16,783	–12,503	–254	..	–614	–5,274
1989	18,887	15,406	–6,464	..	..	1,342	–2,983
1990	15,750	10,444	899	1,283	..	–49	6,205
1990 – Sept.	500	515	–3,105	–290	..	653	–3,120
Oct.	..	328	–100	..	..	–813	–428
Nov.	850	328	2,435	560	..	305	2,957
Dec.	4,750	1,573	3,634	723	..	1,626	6,811
1991 – Jan.	900	2,204	–2,431	–350	..	–2,021	–3,735
Feb.	1,000	1,017	2,827	681	..	1,078	2,810
Mar.	500	1,598	–1,207	–281	..	–948	–2,305
Apr.	..	1,296	–702	–366	..	55	–1,998
May	300	1,191	–460	–383	..	–155	–1,351
June	2,300	5,610	1,307	713	..	120	–2,003
July	1,400	42	–639	–817	..	–90	719
Aug.	600	1,888	1,495	644	..	40	207
Sept.	(500)	(144)	(–607)	139	..	–100	(–251)
			Treasury credit certificates				
1988	2,594	734	3,251	..	..	200	5,112
1989	2,161	2	2,061	2,610	..	152	4,220
1990	1,229	6,207	–9,583	–661	..	148	–14,562
1990 – Sept.	956	128	–6,101	–3,703	..	–145	–5,274
Oct.	38	64	225	..	..	–10	199
Nov.	21	3,815	4,399	5,234	–1,035	765	605
Dec.	72	1,804	–1,590	–3,285	1,035	115	–3,322
1991 – Jan.	14	1,472	5,286	5,593	..	–155	3,828
Feb.	26	49	1,600	1,993	..	–155	1,577
Mar.	9	495	–2,205	–1,322	..	–290	–2,690
Apr.	10	9	–2,906	–2,546	..	100	–2,905
May	13	4	770	1,937	..	–250	780
June	13	4	929	1,031	..	300	938
July	13	90	572	634	..	0	495
Aug.	12	954	–1,727	–1,250	..	–145	–2,669
Sept.	(10)	(1,484)	(–3,753)	–2,477	..	–185	(–5,227)

BI-UIC operations in government securities

(billions of lire)

	PRIMARY MARKET		OPEN MARKET				VARIATION IN BI-UIC PORTFOLIO
	subscriptions	redemptions		of which: repurchase agreements: temporary purchases	temporary sales	other	
Other government securities							
1988	4,777	4,294	–1,349	–421	..	23	–867
1989	2,042	1,131	2,297	270	..	37	3,208
1990	4,162	8,772	11,076	1,498	..	80	6,466
1990 Sept.	460	114	–1,983	–1,338	..	150	–1,637
Oct.	125	368	1,472	..	..	..	1,229
Nov.	56	1,436	3,116	1,600	..	60	1,735
Dec.	66	479	1,452	168	..	130	1,038
1991 Jan.	19	320	2,293	2,025	..	–51	1,992
Feb.	55	1	1,981	2,558	..	141	2,035
Mar.	61	86	–686	181	..	–230	–711
Apr.	25	7	–1,788	–2,735	..	–350	–1,770
May	25	7	–501	–1,362	..	350	–484
June	686	1	5,585	3,247	..	–150	6,271
July	97	487	2,161	–1,296	..	..	1,771
Aug.	45	1	2,450	293	..	100	2,494
Sept.	(167)	(4)	(–2,220)	–2,719	..	–150	(–2,057)
TOTAL							
1988	31,383	21,811	–10,601	–675	..	–391	–1,029
1989	23,091	16,540	–2,106	2,880	..	1,531	4,445
1990	21,141	25,424	2,393	2,120	..	179	–1,891
1990 Sept.	1,916	758	–11,188	–5,331	..	658	–10,030
Oct.	163	760	1,597	..	..	–823	1,000
Nov.	927	5,578	9,950	7,394	–1,035	1,130	5,298
Dec.	4,888	3,856	3,495	–2,394	1,035	1,871	4,527
1991 Jan.	933	3,995	5,148	7,268	..	–2,227	2,086
Feb.	1,080	1,067	6,408	5,232	..	1,064	6,421
Mar.	571	2,179	–4,098	–1,422	..	–1,468	–5,706
Apr.	35	1,313	–5,396	–5,647	..	–195	–6,674
May	338	1,202	–191	192	..	–55	–1,055
June	3,000	5,614	7,820	4,991	..	270	5,206
July	1,510	619	2,094	–1,479	..	–90	2,984
Aug.	657	2,843	2,218	–313	..	–5	32
Sept.	(677)	(1,632)	(–6,580)	–5,057	..	–435	(–7,535)

Table a25

Treasury bill auctions

	MATURING BILLS			Bills offered	Maturity (days)	Market demand	BILLS ALLOTTED AT AUCTION			Price	YIELDS	
	market	BI	total				market	BI	total		after-tax	gross
3-month												
1990 – end-Sept.	8,523	477	9,000	10,500	94	12,835	10,500	..	10,500	97.50	8.97	10.33
mid-Oct.	2,980	20	3,000	4,000	92	5,520	4,000	..	4,000	97.36	9.72	11.20
end- "	11,276	224	11,500	12,500	92	12,609	12,500	..	12,500	97.25	10.15	11.70
mid-Nov.	2,950	50	3,000	4,000	91	6,039	4,000	..	4,000	97.11	10.82	12.48
end- "	9,455	45	9,500	10,500	90	10,743	10,500	..	10,500	96.93	11.68	13.48
mid-Dec.	4,030	220	4,250	5,250	90	5,855	4,950	300	5,250	96.82	12.13	14.00
end- "	10,201	299	10,500	12,500	88	15,311	12,500	..	12,500	96.88	12.17	14.05
1991 – mid-Jan.	3,641	359	4,000	4,250	90	6,669	4,250	..	4,250	97.02	11.31	13.05
end- "	11,570	930	12,500	12,500	90	11,463	11,288	500	11,788	97.07	11.11	12.82
mid-Feb.	3,895	105	4,000	4,250	90	5,181	4,250	..	4,250	96.95	11.59	13.39
end- "	10,485	15	10,500	11,500	91	12,889	11,500	..	11,500	96.90	11.66	13.46
mid-Mar.	4,905	345	5,250	5,500	92	6,176	5,200	300	5,500	96.83	11.81	13.63
end- "	12,470	30	12,500	12,000	91	14,757	12,000	..	12,000	97.07	10.98	12.67
mid-Apr.	4,175	75	4,250	4,250	91	6,664	4,250	..	4,250	97.06	11.02	12.71
end- "	10,991	797	11,788	11,000	91	12,758	11,000	..	11,000	97.11	10.82	12.48
mid-May	4,235	15	4,250	4,000	93	6,203	4,000	..	4,000	97.11	10.57	12.20
end- "	11,430	70	11,500	11,500	92	12,673	11,200	300	11,500	97.19	10.38	11.97
mid-June	5,115	385	5,500	4,500	94	4,923	4,500	..	4,500	97.13	10.38	11.97
end- "	11,975	25	12,000	12,000	94	13,068	12,000	..	12,000	97.06	10.65	12.29
mid-July	4,245	5	4,250	4,500	92	5,833	4,500	..	4,500	97.09	10.77	12.43
end- "	10,985	15	11,000	11,500	92	13,344	11,500	..	11,500	97.07	10.85	12.52
mid-Aug.	4,000	..	4,000	4,500	90	6,578	4,500	..	4,500	97.11	10.95	12.63
end- "	10,980	520	11,500	12,500	91	14,349	12,500	..	12,500	97.06	11.02	12.71
mid-Sept.	4,419	81	4,500	5,000	91	8,226	5,000	..	5,000	97.15	10.66	12.30
end- "	11,985	15	12,000	13,000	92	14,144	13,000	..	13,000	97.16	10.50	12.11
mid-Oct.	4,475	25	4,500	4,750	92	6,976	4,750	..	4,750	97.16	10.50	12.11
6-month												
1990 – end-Sept.	13,000	..	13,000	14,000	182	19,091	13,999	..	13,999	94.53	10.34	11.94
mid-Oct.	4,750	..	4,750	5,750	182	6,673	5,750	..	5,750	94.57	10.25	11.85
end- "	13,975	25	14,000	15,000	182	16,285	15,000	..	15,000	94.60	10.19	11.78
mid-Nov.	4,000	..	4,000	4,500	181	4,763	4,500	..	4,500	94.54	10.38	11.99
end- "	10,967	33	11,000	11,500	181	10,873	10,650	850	11,500	94.38	10.70	12.37
mid-Dec.	3,910	90	4,000	4,750	182	3,444	3,255	1,300	4,555	94.11	11.20	12.95
end- "	12,536	964	13,500	14,250	179	11,901	11,309	2,750	14,059	93.93	11.77	13.62
1991 – mid-Jan.	4,635	865	5,500	5,250	181	7,167	5,250	..	5,250	93.81	11.88	13.75
end- "	12,500	..	12,500	12,750	181	15,812	12,750	..	12,750	94.15	11.18	12.93
mid-Feb.	4,748	502	5,250	5,500	183	5,544	5,499	..	5,499	94.05	11.25	13.02
end- "	13,463	30	13,493	14,500	183	14,925	14,000	500	14,500	93.93	11.50	13.30
mid-Mar.	4,455	45	4,500	5,000	186	5,856	5,000	..	5,000	93.88	11.41	13.19
end- "	13,692	308	14,000	14,000	185	17,323	14,000	..	14,000	94.21	10.80	12.49
mid-Apr.	5,685	65	5,750	5,750	183	6,337	5,750	..	5,750	94.30	10.74	12.42
end- "	14,870	130	15,000	15,500	183	16,055	15,500	..	15,500	94.35	10.64	12.30
mid-May	4,384	116	4,500	4,500	183	6,146	4,500	..	4,500	94.41	10.52	12.16
end- "	10,656	844	11,500	11,000	183	13,204	11,000	..	11,000	94.61	10.12	11.68
mid-June	2,980	1,575	4,555	4,000	185	4,628	4,000	..	4,000	94.59	10.04	11.60
end- "	11,671	2,388	14,059	14,000	186	13,304	12,700	1,300	14,000	94.46	10.24	11.83
mid-July	5,250	..	5,250	5,500	184	5,421	5,421	..	5,421	94.35	10.58	12.23
end- "	12,730	20	12,750	12,500	184	13,944	12,500	..	12,500	94.28	10.72	12.39
mid-Aug.	5,304	195	5,499	6,000	182	6,240	6,000	..	6,000	94.19	11.03	12.75
end- "	13,995	505	14,500	14,500	182	14,951	14,500	..	14,500	94.10	11.22	12.97
mid-Sept.	4,990	10	5,000	5,250	182	8,873	5,250	..	5,250	94.18	11.05	12.78
end- "	13,987	13	14,000	14,000	183	17,183	14,000	..	14,000	94.34	10.66	12.32
mid-Oct.	5,720	30	5,750	6,000	183	7,807	6,000	..	6,000	94.37	10.60	12.25

Treasury bill auctions

	MATURING BILLS						BILLS ALLOTTED AT AUCTION				YIELDS	
	market	BI	total	Bills offered	Maturity (days)	Market demand	market	BI	total	Price	after-tax	gross
12-month												
1990 – end-Sept.	9,492	8	9,500	10,500	367	12,046	10,000	500	10,500	89.00	10.59	12.29
mid-Oct.	2,995	5	3,000	3,750	365	4,556	3,750	0	3,750	89.00	10.65	12.36
end- "	10,497	3	10,500	11,500	365	12,648	11,500	0	11,500	89.00	10.65	12.36
mid-Nov.	3,000	0	3,000	3,500	364	3,784	3,500	0	3,500	89.00	10.68	12.39
end- "	9,300	200	9,500	10,000	364	9,633	9,633	0	9,633	88.90	10.79	12.52
mid-Dec.	1,750	0	1,750	2,500	367	2,669	2,300	200	2,500	88.55	11.07	12.86
end- "	10,500	0	10,500	11,250	365	11,699	11,050	200	11,250	88.45	11.24	13.06
1991 – mid-Jan.	4,230	20	4,250	4,500	365	5,388	4,100	400	4,500	88.40	11.30	13.12
end- "	13,750	0	13,750	13,750	365	14,540	13,750	0	13,750	88.55	11.13	12.93
mid-Feb.	4,695	55	4,750	5,250	365	4,868	4,750	500	5,250	88.40	11.30	13.12
end- "	13,690	310	14,000	14,000	365	14,492	14,000	0	14,000	88.35	11.35	13.19
mid-Mar.	3,155	845	4,000	4,500	368	5,129	4,300	200	4,500	88.20	11.41	13.27
end- "	11,975	25	12,000	12,500	368	15,787	12,500	0	12,500	88.90	10.67	12.38
mid-Apr.	3,521	229	3,750	3,750	366	4,778	3,750	0	3,750	89.05	10.57	12.26
end- "	10,000	0	10,000	10,500	366	11,420	10,500	0	10,500	89.20	10.41	12.07
mid-May	2,859	141	3,000	3,500	366	4,074	3,500	0	3,500	89.15	10.46	12.14
end- "	6,995	5	7,000	7,500	365	8,566	7,500	0	7,500	89.55	10.06	11.67
mid-June	2,246	254	2,500	3,000	367	2,772	2,700	300	3,000	89.50	10.06	11.67
end- "	9,018	982	10,000	10,000	368	9,290	9,185	700	9,885	89.25	10.29	11.95
mid-July	2,500	0	2,500	2,500	366	3,245	2,500	0	2,500	89.35	10.25	11.89
end- "	10,498	2	10,500	11,000	366	10,006	9,600	1,400	11,000	89.20	10.41	12.07
mid-Aug.	2,500	0	2,500	2,500	364	2,852	2,500	0	2,500	89.15	10.52	12.20
end- "	9,332	668	10,000	10,000	367	9,574	9,400	600	10,000	89.00	10.59	12.29
mid-Sept.	2,725	25	2,750	3,000	365	3,705	3,000	0	3,000	88.95	10.70	12.42
end- "	10,500	0	10,500	11,000	366	11,524	10,500	500	11,000	88.90	10.73	12.45
mid-Oct.	3,750	0	3,750	3,750	366	6,890	3,750	0	3,750	89.05	10.57	12.26
Total												
1990 – end-Sept.	31,015	485	31,500	35,000	–	43,972	34,499	500	34,999	–	10.00	11.56
mid-Oct.	10,725	25	10,750	13,500	–	16,749	13,500	0	13,500	–	10.20	11.80
end- "	35,748	252	36,000	39,000	–	41,542	39,000	0	39,000	–	10.31	11.93
mid-Nov.	9,950	50	10,000	12,000	–	14,586	12,000	0	12,000	–	10.61	12.27
end- "	29,722	278	30,000	32,000	–	31,249	30,783	850	31,633	–	11.05	12.78
mid-Dec.	9,690	310	10,000	12,500	–	11,968	10,505	1,800	12,305	–	11.57	13.38
end- "	33,237	1,263	34,500	38,000	–	38,911	34,859	2,950	37,809	–	11.74	13.60
1991 – mid-Jan.	12,506	1,244	13,750	14,000	–	19,224	13,600	400	14,000	–	11.52	13.34
end- "	37,820	930	38,750	39,000	–	41,815	37,788	500	38,288	–	11.14	12.90
mid-Feb.	13,338	662	14,000	15,000	–	15,593	14,499	500	14,999	–	11.37	13.16
end- "	37,638	355	37,993	40,000	–	42,306	39,500	500	40,000	–	11.49	13.31
mid-Mar.	12,515	1,235	13,750	15,000	–	17,161	14,500	500	15,000	–	11.56	13.38
end- "	38,137	363	38,500	38,500	–	47,867	38,500	0	38,500	–	10.81	12.51
mid-Apr.	13,381	369	13,750	13,750	–	17,779	13,750	0	13,750	–	10.78	12.47
end- "	35,861	927	36,788	37,000	–	40,233	37,000	0	37,000	–	10.63	12.29
mid-May	11,478	272	11,750	12,000	–	16,423	12,000	0	12,000	–	10.52	12.17
end- "	29,081	919	30,000	30,000	–	34,443	29,700	300	30,000	–	10.20	11.79
mid-June	10,341	2,214	12,555	11,500	–	12,323	11,200	300	11,.500	–	10.18	11.76
end- "	32,664	3,395	36,059	36,000	–	35,662	33,885	2,000	35,885	–	10.39	12.02
mid-July	11,995	5	12,000	12,500	–	14,499	12,421	0	12,421	–	10.58	12.23
end- "	34,213	37	34,250	35,000	–	37,294	33,600	1,400	35,000	–	10.67	12.34
mid-Aug.	11,804	195	11,999	13,000	–	15,670	13,000	0	13,000	–	10.90	12.60
end- "	34,307	1,693	36,000	37,000	–	38,874	36,400	600	37,000	–	10.98	12.70
mid-Sept.	12,134	116	12,250	13,250	–	20,804	13,250	0	13,250	–	10.82	12.52
end- "	36,472	28	36,500	38,000	–	42,851	37,500	500	38,000	–	10.63	12.29
mid-Oct.	13,945	55	14,000	14,500	–	21,673	14,500	0	14,500	–	10.56	12.21

Bank of Italy repurchase agreements

	AMOUNT		MAURITY (DAYS)		YIELDS	
	offered	taken up	minimum	maximum	marginal	weighted average
1991 – Mar. 21	1,500	1,500	22	22	9.95	10.21
1991 – " 22	4,000	4,000	4	7	10.10	10.30
1991 – " 25	7,500	4,743	8	8	9.95	10.10
1991 – " 26	2,000	2,000	20	20	10.00	10.14
1991 – " 28	2,000	835	19	19	10.00	10.07
1991 – " 29	1,500	1,500	18	18	10.10	10.17
1991 – Apr. 9	1,000	1,000	6	6	10.45	10.58
1991 – " 23	5,000	5,000	16	16	10.25	10.46
1991 – " 24	6,000	5,431	6	6	10.00	10.17
1991 – May 6	1,750	1,750	9	9	10.15	10.28
1991 – " 10	2,500	2,500	6	6	10.05	10.28
1991 – " 21	2,000	1,631	27	27	10.00	10.08
1991 – " 22	4,000	2,861	25	25	10.00	10.06
1991 – " 24	3,500	3,468	21	24	10.00	10.06
1991 – " 27	5,000	1,163	25	25	10.00	10.00
1991 – " 28	1,500	1,500	24	24	10.00	10.02
1991 – " 31	1,500	1,500	14	18	10.00	10.04
1991 – June 3	2,500	2,500	13	18	10.00	10.03
1991 – " 4	5,000	4,443	12	17	10.00	10.02
1991 – " 5	4,500	495	26	26	10.00	10.01
1991 – " 18	1,500	1,500	10	13	10.15	10.22
1991 – " 20	2,500	2,500	8	21	10.10	10.17
1991 – " 21	2,500	2,500	7	10	10.05	10.10
1991 – " 24	5,000	5,000	6	11	10.00	10.05
1991 – " 25	5,000	3,943	3	10	10.00	10.01
1991 – " 27	2,000	2,000	10	12	10.00	10.05
1991 – " 28	3,000	2,352	10	11	10.00	10.04
1991 – July 4	2,500	2,500	11	11	10.10	10.18
1991 – " 5	4,500	4,500	7	14	10.05	10.10
1991 – " 8	1,500	1,500	6	11	10.05	10.09
1991 – " 23	3,500	3,500	8	24	10.10	10.17
1991 – " 24	5,000	5,000	7	8	10.10	10.12
1991 – " 25	7,000	4,785	6	14	10.00	10.04
1991 – " 29	1,000	1,000	2	14	10.00	10.05
1991 – Aug. 5	3,000	3,000	8	11	10.10	10.15
1991 – " 9	1,000	1,000	5	5	10.15	10.18
1991 – " 13	6,500	6,500	3	20	10.15	10.20
1991 – " 22	4,000	4,000	7	21	10.10	10.17
1991 – " 23	4,000	4,000	7	10	10.00	10.10
1991 – " 26	2,000	1,950	8	8	10.00	10.05
1991 – Sept. 2	3,000	3,000	9	10	10.10	10.15
1991 – " 5	1,500	1,500	11	11	10.25	10.25
1991 – " 17	1,500	1,500	13	16	10.30	10.31
1991 – " 23	3,000	3,000	5	14	10.15	10.22
1991 – " 25	5,000	5,000	6	6	10.00	10.09
1991 – Oct. 3	2,250	2,250	8	8	10.10	10.18

Table a27

Bank of Italy financing of purchases at Treasury bill auctions

(billions of lire)

	Maximum amount	Actual amount	Maturity (days)
1989 – July 31	8,498	1,048	4
1989 – Aug. 16	3,163	760	2
1989 – " 31	7,891	605	5
1989 – Sept. 15	2,781	90	3
1989 – " 29	9,608	1,021	4
1989 – Oct. 16	3,145	620	2
1989 – " 31	9,011	710	2
1989 – Nov. 30	8,030	155	1
1989 – Dec. 15	2,880	558	7
1989 – " 29	3,601	2,070	4
1990 – Jan. 15	3,747	885	8
1990 – " 30	11,772	269	2
1990 – Feb. 14	4,396	628	7
1990 – " 28	9,265	723	1
1990 – Apr. 30	10,252	910	2
1990 – May 15	3,596	300	2
1990 – June 15	2,658	584	4
1990 – " 28	7,033	1,170	4
1990 – July 16	2,946	542	2
1990 – " 31	9,622	1,150	2
1990 – Aug. 16	3,268	55	5
1990 – " 31	8,172	250	3
1990 – Sept. 28	9,165	903	3
1990 – Oct. 15	4,175	87	2
1990 – " 30	10,216	610	3
1990 – Nov. 15	3,385	685	6
1990 – " 30	7,479	395	3
1990 – Dec. 14	2,187	782	7
1990 – " 31	8,536	2,005	2
1991 – Jan. 15	3,887	207	2
1991 – " 30	10,278	871	1
1991 – Feb. 14	3,916	477	4
1991 – " 28	9,804	1,078	8
1991 – Mar. 14	4,003	439	4
1991 – " 29	10,304	130	7
1991 – Apr. 15	3,904	500	4
1991 – " 30	9,530	185	2
1991 – May 15	3,559	..	5
1991 – " 30	7,762	30	8
1991 – June 14	2,850	30	4
1991 – " 28	7,597	150	11
1991 – July 30	8,104	60	8
1991 – Aug. 30	9,304	100	10
1991 – Sept. 16	4,076	..	7
1991 – " 30	8,736	..	4
1991 – Oct. 15	4,606	..	2

Table a28

Bank of Italy reverse repurchase agreements

	AMOUNT		MATURITY (DAYS)		YIELDS	
	offered	taken up	minimum	maximum	marginal	weighted average
1989 – Oct. 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 – Nov. 3	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 – Jan. 11	1,500	1,500	13	14	12.65	12.55
1990 – Mar. 7	2,000	2,000	16	19	13.00	12.84
1990 – " 12	2,500	2,500	7	11	12.80	12.69
1990 – Apr. 2	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 – May 2	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 – Sept. 5	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 – Oct. 1	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	13	19	11.30	11.09
1990 – " 15	2,000	2,000	10	10	10.90	10.78
1990 – Nov. 8	1,500	1,500	11	15	11.75	11.45
1990 – " 13	750	450	10	10	13.35	13.20
1990 – " 15	1,000	1,000	8	8	13.55	13.33
1990 – " 29	2,250	1,035	5	5	14.10	13.91
1991 – Jan. 8	750	750	23	23	12.65	12.64
1991 – " 10	3,000	3,000	13	14	12.45	12.37
1991 – " 11	3,000	3,000	12	13	12.05	11.82
1991 – Feb. 1	2,000	2,000	4	4	15.00	14.15

Table a29

Interest rates

	BI OPERATIONS						TREASURY BILLS			
			Repurchase agreements							
			Purchases		Sales					
	Base	Fixed term advances	minimum	average	maximum	average	3-month	6-month	12-month	Average
1987	12.00	11.57	7.84	7.98	5.64	5.44	11.07	10.74	10.55	10.73
1988	12.50	11.58	4.01	4.06	9.56	9.32	11.17	11.06	11.17	11.13
1989	13.50	11.45	6.39	6.58	11.40	11.19	12.65	12.55	12.55	12.58
1990 – Sept. ...	12.50	–	–	–	6.86	6.52	10.53	11.98	12.31	11.60
Oct.	12.50	12.50	–	–	11.01	10.66	11.58	11.80	12.36	11.89
Nov.	12.50	13.35	12.50	12.79	13.19	12.97	13.20	12.26	12.49	12.65
Dec.	12.50	14.16	12.98	13.25	–	–	14.04	13.47	13.03	13.56
1991 – Jan.	12.50	13.04	11.67	11.97	12.38	12.28	12.88	13.17	12.97	13.01
Feb.	12.50	12.86	11.78	11.97	15.00	14.15	13.44	13.22	13.17	13.27
Mar.	12.50	13.05	10.72	10.92	–	–	12.96	12.67	12.61	12.75
Apr.	12.50	–	10.23	10.40	–	–	12.54	12.33	12.12	12.34
May.	11.50	11.50	10.03	10.10	–	–	12.03	11.82	11.82	11.90
June	11.50	11.50	10.03	10.07	–	–	12.20	11.77	11.89	11.96
July	11.50	11.50	10.06	10.11	–	–	12.49	12.34	12.03	12.31
Aug.	11.50	11.50	10.08	10.14	–	–	12.69	12.91	12.27	12.68
Sept. ...	11.50	11.50	10.16	10.21	–	–	12.16	12.45	12.44	12.34

Table a30

Short-term bank interest rates

	Interbank operations					Customer operations						
						Deposits		Certificates of deposit		Loans		
	Sight deposits	Over-night	1-month	3-month	3-month Eurolira	Maximum	Average	6-month	12-month	Minimum	Average	ABI *prime rate*
1987	10.76	9.85	–	–	11.19	9.81	6.94	10.18	10.29	12.34	13.79	13.00
1988	11.73	11.76	–	–	11.91	9.62	6.77	9.98	10.06	12.34	13.66	13.00
1989	12.76	13.39	–	12.83	12.69	9.92	7.01	10.75	10.54	12.99	14.18	14.00
1990 – Sept. ...	10.91	5.92	10.11	10.63	10.38	9.59	6.63	10.50	10.49	12.31	13.81	13.00
Oct.	10.45	10.86	11.27	11.40	10.65	9.60	6.65	10.49	10.53	12.19	13.67	13.00
Nov.	10.95	13.25	12.92	12.41	11.54	9.60	6.67	10.49	10.58	12.21	13.61	13.00
Dec.	12.40	14.52	14.39	13.45	12.35	9.67	6.73	10.50	10.59	12.37	13.77	13.00
1991 – Jan.	13.20	13.24	13.46	13.13	12.13	9.76	6.83	10.53	10.53	12.47	14.01	13.13
Feb.	13.35	13.79	13.73	13.30	12.17	9.85	6.89	10.57	10.52	12.68	14.24	13.50
Mar.	13.15	12.55	12.73	12.51	11.86	9.92	6.94	10.59	10.59	12.79	14.28	13.50
Apr.	12.45	11.41	11.91	11.90	11.39	9.88	6.87	10.53	10.56	12.67	14.22	13.38
May	11.74	11.28	11.53	11.46	11.06	9.66	6.65	10.43	10.49	12.43	14.10	12.63
June	11.36	11.46	11.50	11.47	11.06	9.44	6.34	10.21	10.26	12.08	13.73	12.50
July	11.27	11.31	11.60	11.73	11.18	9.45	6.42	10.21	10.29	11.97	13.59	12.50
Aug.	11.51	11.63	11.78	11.86	11.41	9.47	6.44	10.24	10.28	12.01	13.66	12.50
Sept. ...	11.43	10.63	11.46	11.61	11.25	9.50	6.48	10.37	10.32	12.04	13.71	12.50

Table a31

Principal assets and liabilities of banks

(billions of lire)

	ASSETS										
		Loans									
					of which:	of which:					
	Bank reserves	in lire	in foreign currency		Treasury bills	Other government securities	Shares and equity interests	Bad debts	Interbank accounts	Accounts with special credit institutions	Interest-bearing external assets
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	116,814	374,248	52,935	200,395	22,171	112,658	19,599	26,166	104,171	10,420	100,608
1990 – Sept. ..	123,504	383,217	61,509	176,306	20,255	98,365	20,326	27,977	74,887	7,745	99,115
Oct. ...	128,344	397,539	60,172	176,172	25,138	96,073	20,708	28,455	70,020	8,215	101,141
Nov. ...	133,618	409,945	58,678	167,637	23,443	91,252	21,150	28,605	67,240	9,115	103,055
Dec. ..	128,793	437,408	58,511	191,134	25,161	108,130	21,482	28,269	82,414	9,327	100,960
1991 – Jan. ...	131,423	432,515	57,235	158,384	15,001	87,708	21,187	28,797	59,419	8,054	96,129
Feb. ...	134,351	429,862	58,126	148,610	13,302	80,091	21,389	29,070	59,042	7,654	96,433
Mar. ...	133,983	424,884	61,209	152,444	14,157	82,067	20,568	29,328	59,016	8,484	104,402
Apr. ...	133,485	432,510	61,042	155,597	15,082	86,236	20,845	29,641	55,947	8,408	95,545
May ...	133,653	437,867	63,232	157,446	14,586	90,177	21,348	29,951	62,711	8,269	98,765
June ..	123,864	447,940	67,667	163,332	18,265	93,166	21,573	30,087	57,709	9,653	103,373
July ...	128,151	464,288	68,934	152,724	14,359	90,503	22,397	31,105	52,744	8,391	96,870
Aug. ..	(127,274)	(453,338)	(68,535)	(160,971)	(17,845)	....	....	....	....	....	....
Sept. ..	(123,874)	(454,388)	(68,435)	(172,971)	(21,845)	....	....	....	....	....	....

	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
1986	496,101	277,188	21,465	1,328	3,521	4,412	108,168	5,109	61,799	99,322	14,416
1987	531,819	299,903	31,968	1,012	2,220	5,718	103,966	5,777	72,433	103,828	2,536
1988	571,564	324,769	55,929	2,203	1,834	5,730	98,018	5,787	77,740	122,999	–1,054
1989	625,348	358,420	86,093	2,908	1,534	6,298	119,609	6,337	87,468	152,955	2,899
1990 – Sept. ..	620,256	342,105	111,370	3,721	1,494	4,921	82,357	5,709	94,678	148,211	13,241
Oct. ...	628,105	344,963	116,991	3,906	1,708	4,888	76,649	5,831	94,846	150,046	24,787
Nov. ...	624,661	339,261	119,098	4,102	1,675	4,898	74,008	5,089	95,200	152,573	36,836
Dec. ..	686,279	390,416	119,956	4,097	1,724	7,563	89,747	7,141	95,695	158,049	8,003
1991 – Jan. ...	651,555	356,733	124,555	4,412	1,768	4,928	65,040	7,030	107,153	154,156	–2,900
Feb. ...	645,493	350,714	127,225	4,309	1,732	7,854	62,950	6,637	106,284	153,496	–4,218
Mar. ...	649,292	354,521	129,471	4,476	1,689	4,812	65,208	7,431	107,661	159,205	–5,458
Apr. ...	654,699	360,317	130,843	4,158	1,715	4,854	60,616	6,260	108,032	152,069	617
May ...	646,501	351,507	133,910	3,887	1,731	4,959	67,182	4,218	107,904	161,667	15,194
June ..	662,266	365,593	135,326	3,841	1,726	5,262	65,901	5,799	108,160	175,593	–3,350
July ...	657,644	361,203	137,940	4,051	1,758	6,283	59,119	5,471	110,365	175,396	5,517
Aug. ..	(654,244)	(355,603)	(140,607)	....	....	4,652	....	....	....	....	....
Sept. ..	(670,344)	(369,003)	(144,707)	....	....	3,815	....	....	....	....	....

Table a32

Principal assets and liabilities of the special credit institutions

(billions of lire)

	ASSETS							
	Cash and liquid assets	Loans		Securities	Shares and equity interests	Foreign assets		
		domestic	on behalf of the Treasury			buyer credit	loans to non-residents	other
1987	5,159	175,788	5,036	15,247	3,452	4,064	297	1,487
1988	5,461	202,951	3,879	16,880	3,949	4,123	551	1,621
1989	5,099	238,558	2,791	13,875	4,481	4,344	1,280	4,056
1990 – Sept.	5,831	262,835	1,757	17,172	4,742	5,199	1,109	3,716
Oct.	6,175	266,787	1,757	16,281	4,742	5,222	1,062	3,740
Nov.	4,737	270,202	1,757	17,296	4,742	5,248	1,049	3,727
Dec.	5,500	277,402	1,708	15,909	4,867	5,476	1,311	3,857
1991 – Jan.	7,217	277,897	1,309	16,699	4,853	5,366	1,419	3,858
Feb.	6,363	281,901	1,309	16,301	4,841	5,425	1,525	3,695
Mar.	7,599	285,812	1,309	16,090	4,846	5,895	1,421	4,522
Apr.	7,025	288,709	1,309	17,329	4,893	5,955	1,474	4,409
May	5,096	292,553	1,309	17,505	4,891	6,025	1,430	4,383
June	5,386	291,751	1,309	18,439	5,094	6,177	1,421	4,412
July	5,458	296,729	1,309	19,901	5,091	6,098	1,661	4,252
Aug.	6,090	299,997	1,309	20,050	5,090	6,143	1,634	4,233
Sept.	....	(301,200)	....	....	....	....	....	....

	LIABILITIES								
	Bonds		Certificates of deposit	Short-term financing	Public funds	*Mediocredito centrale*	Capital and reserves	Foreign liabilities	Other
	ordinary	on behalf of the Treasury							
1987	113,681	5,036	30,878	6,104	7,537	3,038	23,609	29,959	–9,312
1988	121,239	3,949	43,837	6,656	7,911	3,541	25,957	36,528	–10,202
1989	129,378	2,863	52,804	8,016	8,806	4,237	28,365	52,681	–12,665
1990 – Sept.	132,785	1,761	62,198	5,777	8,827	3,978	30,342	66,101	–9,408
Oct.	133,536	1,761	62,972	6,767	9,050	4,060	30,342	67,605	–10,327
Nov.	134,561	1,761	63,643	7,352	9,003	4,075	30,342	70,301	–12,280
Dec.	135,601	1,759	64,836	8,478	9,323	4,149	30,867	74,100	–13,082
1991 – Jan.	136,180	1,339	64,629	8,007	9,392	4,158	30,867	74,411	–10,366
Feb.	137,649	1,320	65,166	6,535	9,344	4,176	30,867	76,565	–10,263
Mar.	137,874	1,318	65,435	7,106	9,348	4,034	32,203	81,146	–10,971
Apr.	140,163	1,318	66,188	7,354	9,340	4,127	32,203	83,800	–13,388
May	141,361	1,316	66,206	8,156	9,316	4,144	32,203	83,909	–13,418
June	141,841	1,316	68,438	7,867	9,292	4,198	33,199	86,069	–18,230
July	142,042	1,316	68,394	8,370	9,203	4,237	33,199	86,944	–13,206
Aug.	143,340	1,316	69,195	7,094	8,985	4,318	33,199	87,991	–10,891

Table a33

Loans by branch of economic activity

(billions of lire; percentage changes)

July 1991

	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 fishery products	9,611	10.2	6,110	15.2	7,423	3.1	5,058	10.1
Energy products	5,230	–1.4	53	17.8	7,684	14.2	13	62.5
Ferrous and non-ferrous ores and metals	6,518	–15.5	310	9.2	3,084	–3.7	25	13.6
Non-metallic mineral products	8,921	17.2	1,711	12.2	3,730	12.8	205	15.2
Chemical products	10,566	9.1	411	11.1	4,158	–2.1	41	17.1
Metal products except machinery and transport equipment	13,782	16.3	4,481	15.1	4,403	15.9	329	16.7
Agricultural and industrial machinery	14,912	11.3	1,905	10.9	8,272	5.0	350	0.0
Office and data processing machines; precision and optical instruments	3,366	–11.5	311	14.8	2,248	–7.6	30	36.4
Electrical goods	11,271	14.8	1,022	18.3	4,663	3.9	85	25.0
Motor vehicles	6,556	18.7	548	15.4	5,404	10.1	68	9.7
Food products, beverages and tobacco products	16,281	9.5	2,490	9.8	8,127	14.6	524	19.9
Textiles, leathers, footwear and clothing	25,527	7.1	5,665	12.4	4,835	12.6	441	17.3
Paper, products of printing and publishing	7,686	7.7	1,295	14.4	3,475	26.0	105	20.7
Rubber and plastic products	5,631	10.2	1,185	10.1	1,469	7.5	85	25.0
Other manufacturing products	9,308	17.2	3,941	12.1	2,333	14.0	382	19.4
Building and construction	36,657	25.0	11,377	13.0	23,040	9.3	2,962	10.2
Wholesale and retail trade	55,295	12.0	24,879	12.8	10,203	18.3	4,207	17.7
Lodging and catering services	4,173	23.3	3,268	22.7	3,553	24.1	1,814	23.2
Inland transport services	5,445	12.5	2,558	10.6	13,870	15.6	156	25.8
Maritime and air transport services	1,621	36.0	50	–2.0	1,898	–2.2	5	–68.8
Auxiliary transport services	2,382	33.4	275	19.6	2,105	–0.8	45	32.4
Communication services	650	8.3	16	33.3	9,789	16.1	1	....
Other market services	34,247	34.8	6,359	21.2	17,119	38.3	1,536	28.0
TOTAL BORROWINGS	295,636	14.5	80,220	13.9	152,885	13.1	18,467	15.3
TOTAL FACILITIES GRANTED	527,629	10.3	104,742	12.9	204,390	13.2	19,652	12.5

Italian investment securities portfolios

(end-of-period balance sheet

	LIRA SECURITIES						
	Government securities				Bonds	Shares	TOTAL
		of which: Treasury bills	of which: Treasury credit certificates	of which: Treasury bonds			
1987	31,569	1,989	3,558	24,150	5,254	13,561	50,384
1988	22,292	1,528	3,962	15,533	4,672	13,958	40,922
1989	18,634	1,434	2,887	12,427	4,404	14,881	37,919
1990	23,258	2,168	1,487	17,347	3,829	10,813	37,900
1989 – 3rd qtr.	19,287	1,245	3,506	12,683	4,352	15,638	39,277
4th "	18,634	1,434	2,887	12,427	4,404	14,881	37,919
1990 – 1st qtr.	16,918	827	2,005	12,610	4,426	13,901	35,246
2nd "	21,043	601	2,679	15,758	4,314	15,708	41,065
3rd "	21,143	1,420	1,368	16,545	4,056	11,713	36,911
4th "	23,258	2,168	1,487	17,347	3,829	10,813	37,900
1991 – 1st qtr.	26,364	1,652	3,574	17,854	3,819	10,406	40,588
2nd "	28,571	1,052	5,030	18,951	3,866	10,277	42,714
3rd "	(29,592)	(1,133)	(4,793)	....	(3,707)	(9,273)	(42,572)
1990 – Sept.	21,143	1,420	1,368	16,545	4,056	11,713	36,911
Oct.	22,419	1,693	1,351	17,368	3,969	11,638	38,026
Nov.	22,483	1,927	1,276	17,226	3,839	10,399	36,721
Dec.	23,258	2,168	1,487	17,347	3,829	10,813	37,900
1991 – Jan.	22,753	1,333	1,818	17,152	3,775	9,792	36,320
Feb.	23,851	1,568	2,642	16,836	3,814	10,643	38,308
Mar.	26,364	1,652	3,574	17,854	3,819	10,406	40,588
Apr.	27,472	1,227	3,826	18,800	3,824	10,062	41,358
May	28,519	945	5,005	18,992	3,881	10,507	42,907
June	28,571	1,052	5,030	18,951	3,866	10,277	42,714
July	28,349	1,154	4,037	19,687	3,721	9,975	42,045
Aug.	29,261	1,130	4,224	20,142	3,678	9,566	42,505
Sept.	(29,592)	(1,133)	(4,793)	....	(3,707)	(9,273)	(42,572)

Table a34

funds:
and net assets
values; billions of lire)

FOREIGN CURRENCY SECURITIES					Memorandum items:	
	of which: shares	Other financial assets	Total portfolio	NET ASSETS	Gross sales	Net sales
5,497	2,608	624	56,505	59,454	17,525	–61
7,922	3,485	638	49,482	51,565	6,279	–12,960
6,905	4,942	1,053	45,877	49,165	10,020	–6,663
5,420	3,869	1,138	44,459	47,379	15,146	828
7,488	5,286	1,069	47,835	50,106	2,589	–286
6,905	4,942	1,053	45,877	49,165	2,386	–935
5,526	4,306	1,296	42,067	47,271	3,421	–1,318
5,609	4,441	1,155	47,830	50,353	3,792	–62
4,875	3,396	1,145	42,931	46,726	3,953	1,227
5,420	3,869	1,138	44,459	47,379	3,980	981
6,500	4,669	1,243	48,331	50,861	4,828	1,313
7,902	5,457	1,013	51,628	53,964	5,940	1,788
(8,221)	(5,691)	(1,123)	(51,916)	(55,332)	(5,246)	(1,344)
4,875	3,396	1,145	42,931	46,726	960	170
5,182	3,644	1,173	44,380	47,725	1,591	578
5,211	3,612	1,179	43,112	46,528	1,281	265
5,420	3,869	1,138	44,459	47,379	1,108	138
5,490	3,926	1,263	43,073	46,714	1,350	–15
5,991	4,217	1,195	45,493	49,379	1,639	619
6,500	4,669	1,243	48,331	50,861	1,839	709
6,981	4,986	1,090	49,428	51,723	1,676	472
7,506	5,270	937	51,350	53,365	2,054	504
7,902	5,457	1,013	51,628	53,964	2,210	812
7,960	5,507	1,197	51,202	54,509	2,235	704
8,155	5,564	1,241	51,901	55,275	1,583	616
(8,221)	(5,691)	(1,123)	(51,916)	(55,332)	(1,428)	(24)

11

Table a35

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	Invest-ment funds	Other	
1985	107,490	5,178	2,195	114,863	23,927	504	12,261	*(12,203)*	*(65,969)*	12,220
1986	97,740	6,805	6,071	110,616	9,309	830	11,618	*(27,866)*	*(60,994)*	18,872
1987	85,628	11,012	4,038	100,677	–3,085	485	5,975	*(–2,971)*	*(100,274)*	10,432
1988	103,850	7,966	709	112,525	–1,050	252	–10,918	*(–9,555)*	*(133,795)*	9,697
1989	108,588	8,205	35	116,828	4,975	–6	–9,060	–4,170	125,089	18,370
1990	116,753	5,985	–2,592	120,147	–1,873	–577	–8,730	3,784	127,542	21,246
1989 – 2nd qtr. ..	18,873	3,353	675	22,901	2,676	203	–5,490	–1,304	26,817	2,441
3rd " ..	27,738	2,071	–21	29,788	–5,972	–182	–510	645	35,807	5,139
4th " ..	34,721	2,544	408	37,674	7,875	93	17,390	–686	13,003	8,937
1990 – 1st qtr. ..	19,257	629	–448	19,438	–2,490	–221	–36,850	–1,857	60,856	3,112
2nd " ..	33,863	1,644	370	35,878	–3,671	–50	3,530	3,571	32,497	4,960
3rd " ..	19,525	1,036	–1,607	18,955	–6,502	–221	9,080	104	16,494	5,725
4th " ..	44,108	2,676	–907	45,877	10,791	–85	15,510	1,965	17,695	7,451
1991 – 1st qtr. ..	25,647	2,215	2,136	29,998	2,833	–167	*(–39,430)*	2,829	*(63,933)*	(2,337)
2nd " ..	33,902	(4,197)	403	(38,502)	–2,590	–33	*(10,890)*	2,168	*(28,065)*	(1,957)
1990 – Aug.	7,368	738	–103	8,003	–6,639	–10	9,310	–1,108	6,450	472
Sept.	7,182	789	–24	7,947	–10,025	–38	14,900	235	2,875	890
Oct.	15,965	682	–96	16,551	969	–39	–470	1,164	14,928	2,038
Nov.	12,754	1,025	–228	13,551	5,302	–18	–8,350	128	16,489	1,363
Dec.	15,389	969	–584	15,775	4,521	–28	24,330	674	–13,722	4,050
1991 – Jan.	3,905	507	107	4,519	2,077	–27	*(–33,510)*	–556	*(36,535)*	(1,448)
Feb.	11,512	1,482	2,044	15,038	6,411	–117	*(–9,860)*	1,007	*(17,597)*	(742)
Mar.	10,230	226	–15	10,441	–5,655	–23	*(3,940)*	2,378	*(9,801)*	(146)
Apr.	12,521	2,289	–296	14,514	–6,715	0	*(3,100)*	1,058	*(17,071)*	(600)
May	13,758	643	–61	14,340	–1,065	–8	*(1,750)*	867	*(12,796)*	(596)
June	7,624	(1,265)	760	(9,648)	5,191	–25	*(6,040)*	244	(–1,801)	(762)
July	7,805	(247)	–926	(7,126)	2,391	–68	*(–10,870)*	–105	(15,778)	(581)
Aug.	10,494	(523)	–260	(10,757)	39	–27	,,,,	878	,,,,	(251)

Issue conditions of Treasury bonds

ABI number	Maturity		Date of issue	Price at issue	Yield at issue		Amount taken up (lire bn.)	Coupon	
					gross	net		gross	net
12676	BTP	1.3.96	4.3.91	97.10	13.77	11.98	4,000	6.25	5.4685
12676	BTP	1.3.96	3.4.91	98.15	13.44	11.63	3,000	6.25	5.4685
12676	BTP	1.3.96	6.5.91	99.30	13.09	11.25	4,000	6.25	5.4685
12677	BTP	1.3.01	5.3.91	95.75	13.73	11.96	3,000	6.25	5.4685
12677	BTP	1.3.01	2.4.91	97.40	13.39	11.62	3,000	6.25	5.4685
12677	BTP	1.3.01	2.5.91	98.00	13.27	11.48	4,000	6.25	5.4685
12678	BTP	19.3.98	19.3.91	97.80	13.39	11.63	2,000	6.25	5.4685
12678	BTP	19.3.98	18.4.91	99.75	12.94	11.17	2,000	6.25	5.4685
12678	BTP	19.3.98	21.5.91	100.75	12.70	10.91	2,000	6.25	5.4685
12679	BTP	1.6.01	3.6.91	99.15	12.52	10.87	2,500	6.00	5.2500
12679	BTP	1.6.01	1.7.91	95.35	13.24	11.53	2,000	6.00	5.2500
12679	BTP	1.6.01	2.8.91	94.20	13.48	11.72	2,000	6.00	5.2500
12680	BTP	1.6.96	5.6.91	100.35	12.27	10.60	2,000	6.00	5.2500
12680	BTP	1.6.96	3.7.91	96.45	13.40	11.65	3,000	6.00	5.2500
12680	BTP	1.6.96	1.8.91	96.10	13.52	11.73	3,000	6.00	5.2500
12681	BTP	20.6.98	20.6.91	95.90	13.30	11.60	2,500	6.00	5.2500
12681	BTP	20.6.98	18.7.91	96.25	13.22	11.50	1,500	6.00	5.2500
12681	BTP	20.6.98	19.8.91	95.95	13.30	11.54	1,500	6.00	5.2500
12682	BTP	1.9.96	3.9.91	97.20	13.18	11.48	4,000	6.00	5.2500
12682	BTP	1.9.96	3.10.91	98.40	12.81	11.09	4,000	6.00	5.2500
12683	BTP	1.9.01	4.9.91	95.90	13.15	11.46	2,000	6.00	5.2500
12683	BTP	1.9.01	1.10.91	98.00	12.72	11.04	3,000	6.00	5.2500
12684	BTP	18.9.98	18.9.91	97.80	12.86	11.18	2,500	6.00	5.2500
12684	BTP	18.9.98	18.10.91	99.65	12.42	10.74	2,500	6.00	5.2500

Issue conditions of Treasury certificates in ecus

ABI number	Maturity		Date of issue	Price at issue	Yield at issue		Amount taken up (ecu mill.)	Lira/ecu exchange rate at issue	Coupon	
					gross	net			gross	net
13081	CTE	29.5.95	29.5.90	100.00	11.54	10.10	750	1.510.05	11.55	10.1060
13087	CTE	26.9.95	26.9.90	101.15	11.57	10.10	1,000	1.543.10	11.90	10.4125
13087	CTE	26.9.95	26.11.90	102.25	11.24	9.71	800	1.548.88	11.90	10.4125
13087	CTE	26.9.95	13.12.90	102.00	11.30	9.75	700	1.547.95	11.90	10.4125
13203	CTE	16.7.96	16.7.91	102.50	10.32	8.97	1,000	1.529.00	11.00	9.6250
13203	CTE	16.7.96	23.9.91	104.15	9.85	8.45	700	1.532.25	11.00	9.6250

Issue conditions of Treasury option certificates

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	Date of prepay-ment
13098	CTO	17.4.97	17.4.91	100.85	12.66	10.98	2,000	6.25	5.4685	17.4.94
13098	CTO	17.4.97	20.5.91	101.75	12.42	10.72	2,500	6.25	5.4685	17.4.94
13201	CTO	19.6.97	19.6.91	98.90	12.62	11.00	2,500	6.00	5.2500	19.6.94
13201	CTO	19.6.97	17.7.91	98.80	12.65	11.00	2,000	6.00	5.2500	19.6.94
13201	CTO	19.6.97	21.8.91	98.55	12.71	11.03	1,000	6.00	5.2500	19.6.94
13206	CTO	19.9.97	19.9.91	99.15	12.56	10.95	2,000	6.00	5.2500	19.9.94
13206	CTO	19.9.97	21.10.91	100.45	12.22	10.59	2,500	6.00	5.2500	19.9.94

Issue conditions of Treasury credit certificates

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
13097	CCT	1.4.98	2.4.91	98.60	13.70	11.93	5,000	0.50	6.30	5.5125
13097	CCT	1.4.98	16.4.91	99.45	13.40	11.63	2,500	0.50	6.30	5.5125
13099	CCT	1.5.98	3.5.91	99.00	13.31	11.58	7,000	0.50	6.30	5.5125
13099	CCT	1.5.98	17.5.91	101.00	12.96	11.22	2,500	0.50	6.30	5.5125
13200	CCT	1.6.98	4.6.91	100.40	12.56	10.90	4,500	0.50	6.00	5.2500
13200	CCT	1.6.98	18.6.91	99.20	12.83	11.14	2,500	0.50	6.00	5.2500
13202	CCT	1.7.98	2.7.91	98.10	13.37	11.64	6,000	0.50	6.00	5.2500
13202	CCT	1.7.98	16.7.91	99.10	13.14	11.42	2,000	0.50	6.00	5.2500
13204	CCT	1.8.98	1.8.91	97.50	13.59	11.85	5,500	0.50	6.00	5.2500
13204	CCT	1.8.98	16.8.91	97.50	13.82	12.04	2,500	0.50	6.00	5.2500
13205	CCT	1.9.98	2.9.91	97.65	13.77	12.01	7,000	0.50	6.00	5.2500
13205	CCT	1.9.98	17.9.91	98.60	13.74	11.95	2,500	0.50	6.00	5.2500
13207	CCT	1.10.98	2.10.91	98.40	13.78	12.00	8,500	0.50	6.00	5.2500
13207	CCT	1.10.98	17.10.91	99.75	13.27	11.52	2,500	0.50	6.00	5.2500

Securities market: expected yields and total return indices

	Expected yields						Total return indices					
	Treasury credit certificates	Treasury certificates in ecus	Treasury discount certificates	Index-linked Treasury certificates	Treasury bonds	Other bonds	Treasury credit certificates	Treasury certificates in ecus	Treasury discount certificates	Index-linked Treasury certificates	Treasury bond	Investment funds
1985	14.68	9.88	–	4.61	13.71	13.08	226.18	162.52	–	101.12	126.89	117.10
1986	12.41	8.52	–	4.49	11.47	10.56	259.08	187.57	–	117.76	146.91	161.60
1987	10.66	8.44	–	4.57	10.58	10.13	289.14	207.29	–	132.34	163.43	169.68
1988	11.25	8.11	11.67	5.39	10.54	10.87	316.26	233.11	101.02	141.33	180.86	167.63
1989	12.71	9.32	12.96	6.65	11.61	11.61	348.83	238.78	108.48	148.24	198.46	189.77
1990	12.31	9.99	12.41	6.87	11.87	12.03	397.58	255.49	124.16	164.87	221.95	201.58
1989 – 3rd qtr. ..	12.83	9.30	12.88	6.71	11.69	11.66	353.28	238.59	110.43	149.83	200.98	197.59
4th " ..	13.36	9.70	13.65	7.52	12.22	11.82	363.99	241.78	112.33	150.10	205.74	196.43
1990 – 1st qtr. ..	12.99	9.94	13.39	7.82	12.37	12.00	376.32	245.54	116.21	153.24	211.50	199.79
2nd " ..	12.37	10.13	12.36	7.10	11.83	12.12	391.55	248.80	122.55	161.23	219.04	208.07
3rd " ..	11.79	9.97	11.77	6.45	11.55	11.92	405.41	259.30	127.40	168.88	225.71	204.42
4th " ..	12.08	9.93	12.14	6.12	11.74	12.07	417.03	268.31	130.49	176.13	231.57	194.06
1991 – 1st qtr. ..	12.55	9.48	12.37	6.27	11.91	12.28	428.89	274.31	134.28	182.00	237.94	197.88
2nd " ..	11.35	8.70	11.02	5.40	11.13	11.51	445.84	281.12	140.51	190.76	248.23	209.38
3rd " ..	11.58	9.00	11.41	5.33	11.33	11.45	457.18	283.83	143.43	197.54	254.17	210.93
1990 – Sept.	11.98	10.21	12.04	6.43	11.60	12.05	409.24	261.66	128.09	170.53	227.59	197.53
Oct.	11.88	10.14	11.97	5.99	11.58	11.92	413.73	265.18	129.46	174.04	229.84	195.88
Nov.	11.96	9.91	11.93	6.05	11.69	12.00	417.54	268.66	130.97	176.10	231.85	192.45
Dec.	12.40	9.75	12.52	6.31	11.96	12.29	419.82	271.08	131.03	178.24	233.03	193.84
1991 – Jan.	12.61	9.73	12.60	6.25	12.04	12.28	424.10	273.01	132.46	180.37	235.05	191.89
Feb.	12.58	9.54	12.42	6.35	12.00	12.38	428.51	273.70	134.16	181.70	237.66	197.96
Mar.	12.45	9.16	12.08	6.22	11.69	12.16	434.07	276.21	136.23	183.94	241.12	203.80
Apr.	11.69	8.75	11.54	5.87	11.34	11.85	440.08	279.92	138.17	187.15	245.01	207.32
May	11.28	8.61	10.84	5.29	10.99	11.43	446.86	281.75	140.96	191.22	248.90	208.78
June	11.09	8.74	10.69	5.03	11.06	11.24	450.57	281.68	142.40	193.93	250.77	212.05
July	11.38	8.93	11.20	5.06	11.33	11.37	453.25	282.76	142.54	196.11	251.75	210.33
Aug.	11.62	9.07	11.51	5.53	11.41	11.46	456.71	284.31	143.12	197.07	253.79	210.83
Sept.	11.73	8.99	11.51	5.39	11.24	11.51	461.57	284.41	144.63	199.46	256.97	211.62

Table a38

Liquid assets held by the non-state sector

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

	End-of-period amounts				Percentage changes			
	M1	M2A	M2	M3	M1	M2A	M2	M3
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	632,794	664,762	828,394	7.9	7.1	8.6	11.6
1988	386,037	667,746	723,675	931,290	8.1	5.5	8.9	12.4
1989 – Aug.	374,030	650,717	732,403	975,411	8.2	5.8	10.2	13.3
Sept.	377,967	653,725	735,967	983,733	7.2	5.0	9.3	12.4
Oct.	380,480	656,716	741,746	990,283	6.7	4.7	9.0	11.7
Nov.	376,993	653,661	739,863	993,883	8.0	5.5	9.8	12.7
Dec.	433,334	719,410	805,503	1,054,355	8.9	5.8	9.5	11.8
1990 – Jan.	404,482	694,125	787,175	1,053,941	11.3	7.7	11.2	13.3
Feb.	395,555	681,018	778,063	1,048,926	10.4	7.0	10.5	12.2
Mar.	396,924	680,216	780,264	1,055,255	9.8	6.5	9.8	12.0
Apr.	405,923	687,769	789,005	1,065,079	9.6	6.3	9.3	11.1
May	392,936	672,493	776,055	1,057,860	8.9	5.8	8.9	10.9
June	405,550	684,999	790,965	1,069,404	8.4	5.8	8.9	10.9
July	408,523	691,452	798,882	1,076,511	7.6	5.5	8.5	10.6
Aug.	401,278	684,550	793,823	1,072,163	7.3	5.2	8.4	9.9
Sept.	411,851	695,202	806,571	1,088,182	9.0	6.3	9.6	10.6
Oct.	415,296	698,838	815,830	1,098,198	9.2	6.4	10.0	10.9
Nov.	409,733	696,309	815,408	1,099,544	8.7	6.5	10.2	10.6
Dec.	467,463	765,098	885,054	1,165,846	11.2	8.3	11.7	12.0
1991 – Jan.	431,119	729,010	853,565	1,149,593	6.6	5.0	8.4	9.1
Feb.	425,291	722,069	849,295	1,147,286	7.5	6.0	9.2	9.4
Mar.	431,036	726,605	856,076	1,156,827	8.6	6.8	9.7	9.6
Apr.	432,913	725,404	856,248	1,158,511	6.6	5.5	8.5	8.8
May	424,387	717,782	851,692	1,156,360	8.0	6.7	9.7	9.3
June	439,763	737,207	872,533	1,173,571	8.4	7.6	10.3	9.7
July	438,696	745,339	883,278	1,188,274	7.4	7.8	10.6	10.4
Aug.	431,935	743,499	884,106	1,187,384	7.6	8.6	11.4	10.7
Sept.	446,522	752,798	897,505	1,200,023	8.4	8.3	11.3	10.3

Table a39

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

(changes in billions of lire)

	Financial assets	Financing of the non-state sector: Banks	Special credit institutions	Bonds	State sector	Shares	Other domestic liabilities	Foreign sector	State sector	Foreign sector	Unclassified
1985	145,932	33,059	11,409	1,700	11,837	9,877	4,339	3,108	97,325	–7,761	–18,959
1986	168,078	23,951	16,896	5,120	9,216	20,534	5,217	–1,797	97,480	–1,311	–7,228
1987	168,151	22,318	20,161	3,640	8,489	7,422	4,839	3,331	102,277	–3,144	–1,182
1988	192,823	53,750	24,196	233	10,705	–1,921	1,839	12,735	111,002	–12,285	–7,432
1989	219,117	76,949	30,366	–454	12,675	3,659	2,054	21,618	118,148	–25,709	–20,189
1990	236,639	73,222	35,737	–3,488	9,594	5,023	4,546	34,100	126,476	–29,233	–19,337
1989 – Aug.	9,960	–6,489	2,351	1,012	597	–380	510	455	8,231	1,165	2,508
Sept.	12,892	–1,414	2,669	–249	935	2,084	573	1,875	17,300	–2,242	–8,640
Oct.	17,406	7,435	3,596	–286	908	1,664	389	1,145	11,338	–2,061	–6,722
Nov.	18,060	14,825	3,005	–337	1,206	352	–185	2,809	17,989	–2,493	–19,111
Dec.	65,820	17,459	5,212	599	583	–406	–726	1,182	17,860	–1,236	25,294
1990 – Jan.	10,419	6,443	1,618	–793	1,559	–1,331	619	3,898	–6,449	302	4,554
Feb.	12,839	–2,206	3,580	–159	230	1,643	1,521	1,480	12,059	–3,821	–1,487
Mar.	18,478	–4,932	3,759	170	2,824	245	–199	7,991	13,181	–2,451	–2,108
Apr.	19,278	7,298	2,405	28	210	1,422	725	5,486	16,072	–3,657	–10,712
May	5,593	8,379	2,940	543	–370	685	–598	–36	13,347	–1,850	–17,448
June	15,895	6,308	–1,454	–71	1,036	–203	828	3,835	–10,213	–2,494	18,322
July	16,939	15,615	4,032	–1,587	–1,404	2,894	–84	1,410	6,150	–1,517	–8,568
Aug.	5,878	–10,638	3,229	–165	1,144	–189	–32	3,324	9,344	111	–249
Sept.	18,990	–3,357	1,358	–343	852	629	524	6,588	17,855	–1,887	–3,229
Oct.	26,946	13,100	3,938	–181	1,150	814	73	2,200	23,047	–4,145	–13,051
Nov.	17,156	10,788	3,427	–305	1,637	–1,487	338	–74	15,165	–3,165	–9,167
Dec.	68,228	26,424	6,907	–626	726	–99	831	–2,001	16,919	–4,659	23,807
1991 – Jan.	....	–5,536	678	94	1,147	1,448	–241	....	4,414	(–3,442)	....
Feb.	....	–772	2,519	2,044	965	742	1,474	....	7,791	(–4,226)	....
Mar.	....	–2,994	3,855	0	949	146	571	....	18,110	(–3,469)	....
Apr.	....	7,634	2,711	–168	1,183	600	301	....	15,620	(–3,935)	....
May	....	7,880	4,035	–61	835	596	173	....	14,738	(–3,246)	....
June	....	14,549	–1,306	760	....	762	1,514	....	–8,664	(–3,272)	....
July	....	19,574	4,556	–910	....	581	–468	....	11,741	....	....
Aug.	....	–11,280	3,269	–260	....	....	....	....	10,687	....	....
Sept.	....	1,451	....	....	....	....	....	....	22,005	....	....

Table a40

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
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	229,557	106,862	122,695	–	15.2	–	18.5
1990	229,896	105,472	124,425	–	13.2	–	15.4
1989 – July	26,467	15,669	10,798	2.3	14.3	4.4	17.6
Aug.	4,396	–3,126	7,522	2.0	14.1	4.2	17.9
Sept.	17,882	1,006	16,876	3.8	13.7	4.0	17.6
Oct.	20,085	10,745	9,340	3.6	13.6	3.8	17.3
Nov.	38,532	17,493	21,039	4.4	14.0	3.9	17.5
Dec.	41,579	23,269	18,309	4.6	15.2	4.2	18.5
1990 – Jan.	968	7,268	–6,300	3.6	14.4	4.2	18.0
Feb.	12,003	1,214	10,789	2.6	13.8	3.3	17.1
Mar.	17,097	–1,003	18,100	2.3	13.9	2.7	16.8
Apr.	22,570	9,732	12,838	3.6	13.8	3.1	16.6
May	23,734	11,862	11,872	3.9	13.6	3.7	16.3
June	–4,742	4,784	–9,526	2.4	13.8	4.0	16.0
July	18,810	18,060	750	1.6	13.1	3.8	16.0
Aug.	1,464	–7,574	9,039	1.3	12.9	3.4	15.3
Sept.	16,308	–2,343	18,651	2.8	12.7	3.1	14.8
Oct.	39,581	16,858	22,723	4.2	13.7	3.5	15.5
Nov.	31,581	13,910	17,671	4.5	13.0	3.3	14.5
Dec.	50,523	32,705	17,818	5.0	13.2	4.8	15.4
1991 – Jan.	62	–4,764	4,826	3.1	13.1	2.5	13.5
Feb.	9,853	3,791	6,062	2.6	12.9	2.7	13.9
Mar.	16,404	861	15,543	2.1	12.7	1.8	14.2
Apr.	26,854	10,177	16,678	3.5	12.8	3.8	14.1
May	28,575	11,854	16,720	4.0	12.9	3.8	13.8
June	6,003	14,003	–8,000	3.2	13.6	4.8	15.1
July	35,218	23,219	11,998	3.0	14.3	5.0	15.4
Aug.	3,490	–8,272	11,762	2.7	14.4	4.9	15.5

Notes to the Tables

Table a1

Sources: National bulletins, IMF and OECD.

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

For Italy the quarterly statistics of the GDP deflator are not available owing to the revision of the quarterly national accounts that Istat is conducting.

From July 1990 onwards the current balance of Germany includes the transactions of the former German Democratic Republic.

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: 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: 3-month Treasury bill rate; Japan: rate on 2-month private sector securities; Germany, France and the United Kingdom: 3-month interbank rate; Italy: net annual yield on 6-month Treasury bills on a deferred basis, weighted according to the amounts sold to the market; 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 a maturity of more than 4 years (secondary market); France: long-term government bonds; the United Kingdom: 20-year government bonds securities; Italy: average yield, net of 12.5 per cent withholding tax, of Treasury bonds listed on the Milan stock exchange with a residual maturity of more than 12 months (weighted according to the amount outstanding); Canada: end-of-period yield of public sector securities with a maturity 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 (closing prices).

Table a7

Source: BIS.

The United States dollar forward premiums and discounts: the differences between the rates shown in the upper part of the Table.

Table a8

Sources: IMF for the prices of gold. Period averages except for gold prices, which are end-of-period values.

Table a9

Nominal effective exchange rates: calculated for each country with reference to the currencies of Italy's 14 main trading partners. For the method of calculation, see the article "New Indices of Real and Effective Exchange Rates" in Banca d'Italia, *Economic Bulletin*, no. 8, February 1989.

Table a10

Sources: Based on IMF, Istat and OECD data.

Real effective exchange rates: based on the wholesale prices of manufactures of Italy's 15 main trading partners.

For the method of calculation, see the article "New Indices of Real and Effective Exchange Rates" in Banca d'Italia, *Economic Bulletin*, no. 8, February 1989.

Table a11

Sources: Based on IMF, Istat and OECD data.

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 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; "Foreign position" comprises all claims on non-resident operators except loans granted by branches abroad to local operators in the currency of the host country.

Country grouping: that adopted by the BIS.

Table a13

Source: Istat.

Seasonally adjusted data: "Other domestic uses" comprises government consumption and change in stocks.

The data at current prices and corresponding deflators are not available owing to the revision of the quarterly national accounts that Istat is conducting. The quarterly data shown are provisional.

Table a14

Sources: Based on Istat and Isco data.

Industrial production: the indices are first 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.

Since January 1991 Istat has related the sample results to the total population with account also being taken of registry data on the age-group composition of the latter. This has caused a break in the series.

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

Table a16

Source: Istat.

Both the wholesale price indices and the consumer price indices have been rebased (1990=100, whereas they had previously been based respectively 1989=100 and 1985=100).

Table a17

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

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

Balances: may not coincide with the sum of the component items owing to rounding.

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 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 settlements of debts incurred by state sector bodies.

Other operations: includes the balance of other Treasury operations, 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 Deposits 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

The figures for central bank financing and banks' holdings of securities are based on balance sheet data.

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 denominated in lire acquired by non-residents, which are included in the respective categories of domestic debt. The item also includes Treasury credit certificates in ecus stamped as being for circulation abroad.

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 is translated 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 the proceeds of 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

Treasury: comprises the Bank of Italy's net purchases of government securities at issue, drawings by the Treasury on its account with the central bank and other minor items.

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

Deposits with BI: until September 1990 comprises the compulsory reserves, free reserves and deposits against overshoots of the ceiling on lending and as collateral for banker's drafts. Since October 1990, the item comprises the reserve account, compulsory reserves on net foreign currency fund-raising, the free deposits of the banks not subject to the compulsory reserve requirement and deposits against overshoots of the ceiling on lending and as collateral for banker's drafts.

Compulsory reserves: since October 1990 comprises the average reserve requirement in the maintenance period (from the 15th of one month to the 14th of the next) and compulsory reserves on net foreign currency fund-raising.

Other items: comprises cash on hand and undrawn ordinary advance facilities; until December 1988 the item also includes deposits with the Treasury and compulsory stockpiling bills not discounted with the Bank of Italy.

Monetary base financing of the Treasury: the last few months' figures for the borrowing requirement and its non-monetary financing are provisional.

Net sales of securities at issue: comprises total net subscriptions excluding those of BI-UIC.

Other forms of financing: comprises PO deposits, foreign loans, deposits of social security institutions with the Treasury, surety deposits with the Savings and Loans Fund, and bank and special credit institution loans to autonomous government agencies.

Rounding may cause discrepancies in the totals.

Table a22.2

BI-UIC financing of the Treasury: includes the direct creation of liquidity by the Treasury.

Government securities and Treasury c/c: this item differs from the BI-UIC accounts because it includes securities sold in connection with advances granted under the Ministerial Decree of 27.9.1974. The year-end figures include the unrealized capital losses on securities.

Deposits with BI: until September 1990 comprises the compulsory reserves, free reserves and deposits against overshoots of the ceiling on lending and as collateral for banker's drafts. Since October 1990 the item comprises the reserve account, compulsory reserves on net foreign currency fund-raising, the free deposits of the banks not subject to the compulsory reserve requirement and deposits against overshoots of the ceiling on lending and as collateral for banker's drafts.

Rounding may cause discrepancies in the totals.

Table a23

Estimates of the average of the daily data in the maintenance period (from the 15th of one month to the 14th of the next).

Deposits with BI: until September 1990 comprises the compulsory reserves, free reserves and deposits against overshoots of the ceiling on lending and as collateral for banker's drafts. Since October 1990 the item comprises the reserve account, compulsory reserves on net foreign currency fund-raising, the free deposits of the banks not subject to the compulsory reserve requirement and deposits against overshoots of the ceiling on lending and as collateral for banker's drafts.

Twelve-month changes: in "Bank reserves" and "Repurchase agreements" are adjusted for the change in the average compulsory reserve ratio.

Repurchase agreements: include those with primary dealers in the screen-based secondary market for government securities.

Purchases: include finance granted in connection with Treasury bill auctions.

Rounding may cause discrepancies in the totals.

Table a24

Other operations: comprises finance granted to primary dealers on the screen-based secondary market for government securities; those consisting of Treasury bills include finance granted in connection with auctions.

Rounding may cause discrepancies in the totals.

Table a25

Competitive bid auctions. Prices are expressed in percentages.

Withholding tax is levied on gross yields at the rate of 12.5 per cent. The "Total" yields are averages weighted on the basis of the quantities sold.

Table a26

Competitive bid auctions. The marginal yield is the minimum tender rate.

Table a27

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 a28

Competitive bid auctions. The marginal yield is the maximum tender rate.

Table a29

Base rate: end-of-period figures.

Rate on fixed-term advances: until April 1991 the average of the rates on new operations; subsequently, end-of-period figures. Until 12 May 1991 the base rate was increased by 2.25, 1.25 and 0.5 percentage points for operations undertaken within respectively 5, 15 and 30 days of the preceding one. Since 13 May 1991 a single penalty rate is applied that the Bank of Italy is empowered to fix up to 1.75 points.

Repurchase agreement rates: simple averages of those on the operations concluded during the month.

Treasury bill yields: are given before tax. The "Average" yield refers to the average of the gross auction rates weighted according to the quantities sold to the market.

Table a30

Interbank sight deposit rate: weighted monthly average of rates reported at 10-day intervals. The rates reported are the maximum rates applied to the lira sight deposits of resident credit institutions with a debit balance of more than 1 billion lire.

3-month Eurolira rate: monthly average of the bid rates recorded daily on lira interbank deposits in London.

Other interbank rates: monthly average of the rates recorded daily on the screen-based interbank deposit market.

Bank rates: weighted monthly average of rates reported at 10-day intervals.

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

Table a31

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: as defined for supervisory purposes; includes 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 a32

Securities: includes those denominated in ecus, while those issued by non-residents denominated in foreign currencies are included among the "Other assets" under the heading "Foreign assets".

Table a33

Source: Bank of Italy Central Credit Register.

Loans: includes the financing of compulsory stockpiling, bad debts and overdue and protested bills, but not positions of less than 80 million lire.

Producer households: comprises one-man businesses and unincorporated enterprises with less than 20 employees, most of which engage in the production of goods and non-financial market services.

Table a34

Foreign currency securities: includes government securities denominated in foreign currencies and Eurolira bonds.

Other financial assets: includes CDs, banker's acceptances and commercial paper.

The difference between "Total securities portfolio" and "Total net assets" consists of other net assets (mainly liquidity).

Table a36

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.

Table a37

Expected net yields: calculated with reference to securities listed on the Milan stock exchange. The Treasury bond sample comprises listed securities with a residual maturity of more than one year.

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: refer to securities listed on the Milan stock exchange and are 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 a38

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 a39

Foreign sector: current account balance on a settlement 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 the loans and equity participations of the Ministry of the Budget, the lending of the Deposits and Loans Fund, and 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 state-controlled 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 a40

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 Agency 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' securities repurchase agreements with customers.

3-month growth rates: calculated on the basis of seasonally adjusted data for loans 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 Agency*
— *autonomous government agencies.*

Total domestic credit

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

Statistical aggregates cont.
(Labour market)

Labour force

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

First job seekers

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

Other job seekers

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

Unemployed workers

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

Under-employed persons

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

Unemployment

— *Unemployed workers + First job seekers + Other job seekers.*

Unemployment rate

— *ratio of unemployment to the labour force.*

Unemployment rate adjusted for Wage Supplementation

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

Scala mobile

— *various Italian systems of wage indexation. The mechanism introduced in 1986 is based on the trade union cost-of-living index and half-yearly adjustments. It provides for:*

1) 100% indexation of a minimum amount (itself fully indexed) for all workers;

2) 25% indexation of a second wage component equal to industry-wide contractual base pay plus cost-of-living allowance less the fully indexed portion of point 1).

The residual wage component (including overtime, production and seniority bonuses, individual and company increments, etc.) is not indexed.

In the event of an increase in indirect taxes, unions, employers and the Government may agree that a portion of the effect is to be excluded from the reference price index.

Wage Supplementation Fund

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

List of abbreviations

ABI — *Associazione bancaria italiana*
Italian Bankers' Association

AIMA — *Azienda di stato per gli interventi sul mercato agricolo*
Government Agency for Intervention in the Agricultural Market

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

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

CIP — *Comitato interministeriale prezzi*
Interministerial Committee on Prices

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

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

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

EAGGF — *European Agricultural Guidance and Guarantee Fund*

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

ENEL — *Ente nazionale per l'energia elettrica*
National Electricity Agency

ENI — *Ente nazionale idrocarburi*
National Hydrocarbon Agency

Iciap — *Imposta comunale per l'esercizio di imprese e di arti e professioni*
Municipal tax on businesses and the self-employed

Ilor — *Imposta locale sui redditi*
Local income tax

INAIL — *Istituto nazionale per l'assicurazione contro gli infortuni sul lavoro*
National Industrial Accidents Insurance Institute

INA — *Istituto nazionale delle assicurazioni*
National Insurance Institute

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

INVIM — *Imposta sull'incremento di valore degli immobili*
Capital gains tax on property

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

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

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

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

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

SACE — *Sezione per l'assicurazione dei crediti all'esportazione*
Insurance Department for Export Credits

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

ARTICLES AND DOCUMENTS PUBLISHED IN EARLIER ISSUES OF THE ECONOMIC BULLETIN

MANAGEMENT OF THE BANK OF ITALY

at 31 October 1991

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