BANCA D'ITALIA

Economic Bulletin

Number 15 October 1992

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Economic Developments and Policies

The international economy

The international monetary system was subject to intense strain from the summer onwards. The turmoil on the foreign exchange markets came at a time when growth rates in the industrial economies were uniformly low and inflationary pressures in most countries were abating. The currency problems added to the uncertainty surrounding the prospects for international economic recovery, which is still hampered by relatively high real interest rates.

Economic activity accelerated almost everywhere during the first quarter, but expectations that this was the beginning of an upturn were disappointed in the second quarter by a new slowdown, which was particularly marked in Japan and Germany. In the United States, the United Kingdom and Canada demand was depressed and confidence indicators remained subdued, not least because of the costs and risks associated with the debts accumulated by households and firms during the eighties. After rallying during the early months of the year, the US dollar began to weaken in April. In Japan, the slowdown in production and the continued decline in share and property prices exacerbated the financial position of banks and led the central bank to reduce official interest rates further. In the United States, the Federal Reserve eased monetary conditions at the beginning of July, following a further rise in the unemployment rate; the depreciation of the dollar gathered pace. In the same month the excessively rapid money supply growth in Germany prompted the Bundesbank to increase official rates to their highest post-war levels, thereby contributing to the appreciation of the Deutschemark.

The contrast between the monetary stances of the United States and Germany had a serious impact on the European Monetary System, which had been rendered vulnerable by uncertainty about the possibility of meeting the deadlines for establishing European Monetary Union. The turbulence on the foreign exchange markets further undermined confidence. In August and September the economic indicators of the leading countries deteriorated and the decline in share prices accelerated. During the meetings held in Washington in September, the International Monetary Fund again revised downwards its growth forecasts for this year and for 1993.

Economic activity, prices and the balance of payments in the leading industrial countries

In the United States output grew at an annual rate of 2 per cent during the first half of the year (Table 1). Private consumption increased very rapidly in the first quarter but slowed down slightly in the second, partly as a result of the deterioration in conditions on the labour market: unemployment rose by half a percentage point between March and June to 7.8 per cent (Figure 1), the highest level since the beginning of 1984.

Table 1

Gross product and domestic demand in the leading industrial countries

(constant prices; annualized percentage changes on preceding period)

	1991	1991 H2	1992		1992 H1	1992 (1)
			Q1	Q2		
United States						
GDP	–1.2	1.2	2.9	1.5	2.0	1.9
Domestic demand	–1.8	1.5	3.0	3.4	2.3	2.1
Canada						
GDP	–1.7	1.6	1.1	0.7	0.8	2.1
Domestic demand	–1.1	2.8	–3.4	0.6	–1.0	1.0
Japan						
GNP	4.4	1.6	4.4	1.0	2.4	2.1
Domestic demand	3.0	1.2	3.6	–0.2	1.1	1.6
Germany (2)						
GNP	3.6	–0.9	7.9	–0.7	3.2	1.4
Domestic demand	3.6	–2.8	14.3	–4.2	5.7	1.8
France						
GDP	1.1	2.9	3.4	0.9	2.0	2.2
Domestic demand	1.0	1.8	3.0	–1.6	0.6	1.8
Italy						
GDP	1.4	1.5	2.2	0.9	1.8	1.2
Domestic demand	2.2	3.3	3.1	2.3	2.2	1.3
United Kingdom						
GDP	–2.2	–0.5	–3.3	–0.6	–1.9	0.8
Domestic demand	–3.2	–0.7	0.9	0.8	0.7	0.4

Sources: IMF, OECD, Istat and national bulletins.
(1) IMF forecasts: *World Economic Outlook*; for Italy, *Relazione previsionale e programmatica*. – (2) Figures refer to West Germany only.

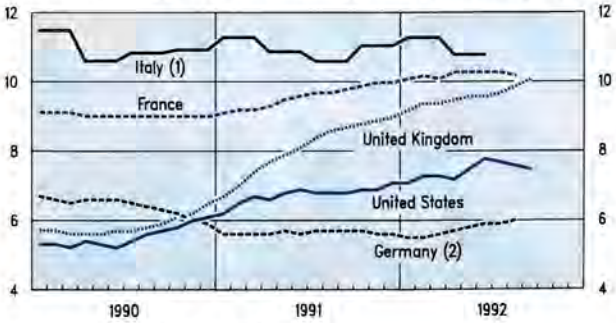
Indicators of business confidence, which had improved markedly in the early months of the year, signaled a new deterioration in short-term prospects in the summer (Figure 2); this was confirmed by the slight contraction of 0.5 per cent in industrial output in the two-month period of August-September compared with July (Figure 3).

The weakness of economic activity and the smallness of the rise in raw materials prices helped to attenuate inflationary pressures (Figure 4); consumer price inflation was running at a 12-month rate of 3 per cent in the first nine months of the year, while in July the producer prices of manufactures were less than 2 per cent higher than a year earlier.

Figure 1

Unemployment rate

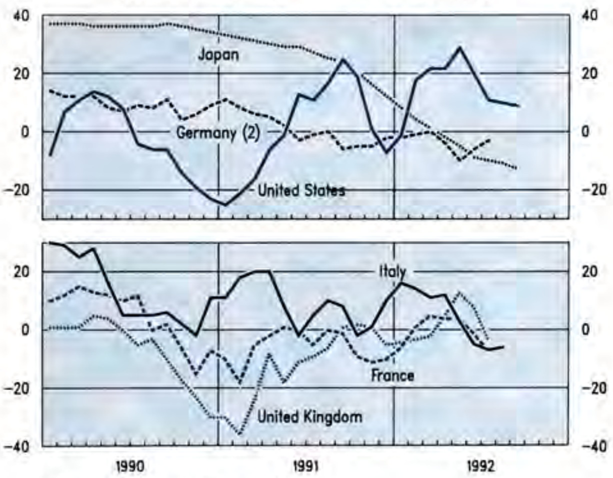
(seasonally adjusted monthly data; percentages)



Sources: National bulletins, Istat.
(1) Quarterly figures. – (2) Western Länder.

Figure 2

Indicators of business confidence (1)
(seasonally adjusted monthly data)



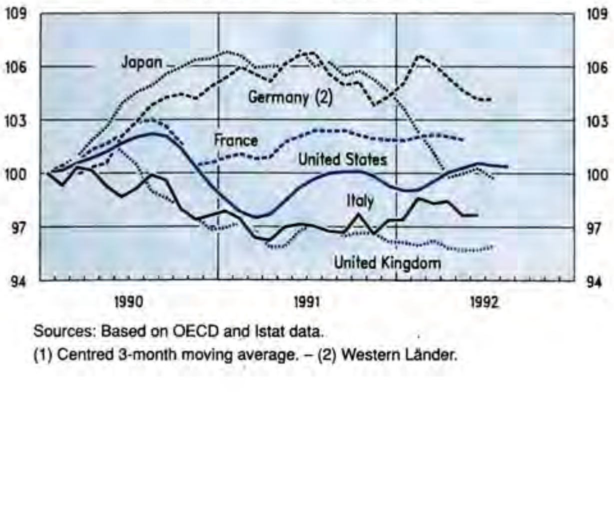
Sources: National bulletins, Isco, OECD.
(1) Results of business surveys: balance of replies received. – (2) Western Länder.

In Japan and Germany too, the favourable results of the first quarter, which were due partly to temporary factors, were followed by a slowdown in output.

In Japan, gross national product grew at an annual rate of 2.4 per cent in the first half of 1992, sustained primarily by foreign demand. Investment continued to decline, owing partly to the banking sector's reluctance to grant new loans on account of the fall in share and property prices.

Figure 3

Industrial production (1)
(seasonally adjusted monthly data; indices, January 1990=100)



Sources: Based on OECD and Istat data.
(1) Centred 3-month moving average. – (2) Western Länder.

Surveys taken during the summer indicated a worsening of business confidence; industrial output contracted between July and August, when it was 7.5 per cent lower than in August 1991. The deepening of the downturn and its serious repercussions on the financial markets persuaded the Japanese Government to bring forward the submission of a special programme of measures to boost the economy. The shadow of recession helped to slow down inflation, which fell to 1.7 per cent in August, compared with 2.7 per cent in December 1991.

Figure 4

Consumer prices
(percentage changes on corresponding month of previous year)

Sources: OECD and Istat.
(1) From April 1992 estimated data for Italy are based on the month-to-month changes in the cost of living.

In the Western part of Germany, GNP rose by 3.2 per cent on an annual basis between the second half of 1991 and the first half of 1992. The boom in building investment, which was aided by the exceptionally mild winter, led to particularly strong growth in the first quarter. Imports rose at an annual rate of 4.3 per cent in the first six months, following average increases of more than 12 per cent in 1990 and 1991. In August industrial output was below the average for 1991, albeit only slightly. In the same month unemployment reached 6 per cent, half a percentage point higher than in January.

The 12-month rate of increase in consumer prices remained above 4 per cent in the first six months of 1992. In July it dropped to 3.3 per cent as the effects of last year's increases in indirect taxes dropped out; in September it stood at 3.6 per cent. If indirect taxation is left out of the index, inflation averaged 3.5 per cent in the first half-year and is declining from the peak of 3.9 per cent recorded in March. This slowdown, which has been facilitated by the appreciation of the Deutschemark, is in line with trends in wages and salaries: the average increase in contractual wage rates for the economy as a whole fell to 5 per cent in June, compared with 7 per cent in January and an average of 6.5 per cent in 1991.

In the eastern *Länder* of Germany, performance continues to differ widely from one branch of activity to another. In the first five months of this year, building activity was 9 per cent higher than in the corresponding period of 1991. Manufacturing output, by contrast, contracted by 2.5 per cent; in May it was 40 per cent lower than the average for the second half of 1990, while the production of investment goods was down by almost 60 per cent. In July the unemployment rate fell to 15 per cent, compared with 17 per cent in January, partly on account of the intensification of government job-creation schemes. The cost-of-living index increased at rates of almost 15 per cent in the first six months of the year, principally as a result of adjustments in energy prices and rents to the levels obtaining in the western *Länder.*

The economic performance of the United Kingdom was particularly weak. Gross domestic product, which fell by 1.9 per cent in the first half of the year, has now declined for eight consecutive quarters. The recession, which is the result of a loss of competitiveness, high real interest rates and the debt burden weighing on households, is now the longest and deepest of the post-war period. Unemployment rose to 10.1 per cent in September, against 9.2 per cent in January. Inflation, which has been falling steadily since the beginning of the year, stood at 3.6 per cent in September; the slowdown was less pronounced if mortgage interest is excluded.

In France output grew at an annual rate of 2 per cent in the first half-year, sustained principally by net exports and, to a lesser degree, by private consumption. Investment virtually stagnated. Unemployment reached 10.2 per cent in August, whereas at the beginning of 1991 it had stood at 9 per cent. Consumer price inflation fell to 2.6 per cent in September.

The slowdown of inflation in the industrial countries was helped by the behaviour of the prices of oil and other raw materials. Oil was trading at around $20 at the end of September, close to last year's average; in real terms it was well below the levels that prevailed in the second half of the seventies. The weakness of economic activity was a factor in the further decline in the prices of other raw materials, which in August were 18 per cent lower than at the beginning of 1989; the decline in real terms over the same period was close to 30 per cent.

The current account imbalances of the three leading industrial countries, which had ceased to decline in the second half of 1991, began to increase again (Table a1). This was largely attributable to the pronounced slowdown of the Japanese economy, which pushed the trade surplus to historically high levels.

The US current account deficit, which had been almost eliminated in 1991 by the massive contributions from other countries in connection with the Gulf conflict, widened again in the first half of this year to the equivalent of 0.8 per cent of GDP on a seasonally adjusted basis. The trade deficit, equal to 1.4 per cent of GDP, showed no improvement; exports grew by more than 8 per cent in volume, boosted partly by gains in competitiveness over the last two years, but the increase was more than offset by the expansion of imports, which was particularly rapid in the first quarter. The current account deficit, which has persisted since 1982 despite the wide fluctuations of the dollar, now appears to be structural. It has given rise to net foreign debt that now stands at around $550 billion, net of official gold reserves.

Over the same period, Japan's current account surplus increased further to 3.1 per cent of GNP, compared with 2.3 per cent in 1991; the growth reflected both a substantial inflow of income from foreign assets and a net improvement in merchandise trade, which recorded a surplus of 3.5 per cent of GNP, compared with 3 per cent last year. In the first half of 1992 imports were 11 per cent lower in value terms than a year earlier owing to the nominal appreciation of the yen and the sharp slowdown in domestic demand. Exports, on the other hand, continued to benefit from the brisk expansion of the newly industrialized Asian economies, as well as from increased trade with China, which is now Japan's third most important trading partner, after the United States and Germany. Japan's net external creditor position exceeded $350 billion, excluding gold reserves.

In Germany the ratio of the current account balance to GNP has deteriorated dramatically, falling by more than 6 points between 1989 and 1991. The enormous cost of unification has turned Germany into a net borrower of foreign funds, a tendency that was confirmed during 1992. In the first half of the year the deterioration of the balance on invisibles caused the seasonally adjusted current account deficit to rise to the equivalent of 1.6 per cent of GNP, compared with 1.3 per cent in 1991. In particular, the deficit on the tourist account increased and the surplus from investment income diminished. The latter was affected both by the decrease in net foreign assets (which nonetheless remained in excess of $300 billion, net of gold reserves) and the pattern of international interest rates: the yields on Germany's foreign assets, most of which – including official assets – are denominated in dollars, are lower than those paid on its liabilities, which are mostly in marks. Net transfer payments, by contrast, were much lower than in 1991, thanks to the termination of contributions to the Gulf conflict. In the first half-year the seasonally adjusted trade surplus equalled 0.8 per cent of GNP, the same figure as last year. Imports remained unchanged in value terms, after increasing by almost 16 per cent in 1991; imports from the EC, in particular, contracted by 1 per cent, thus bringing to an end the stimulus German unification had given to the growth of the Community economies. Exports, which had stagnated in 1991, recorded a modest increase of less than 2 per cent in value during the first half of 1992. This can be attributed both to the strong pressure on domestic production caused by unification and to the erosion of price competitiveness (Table a11).

Economic policies

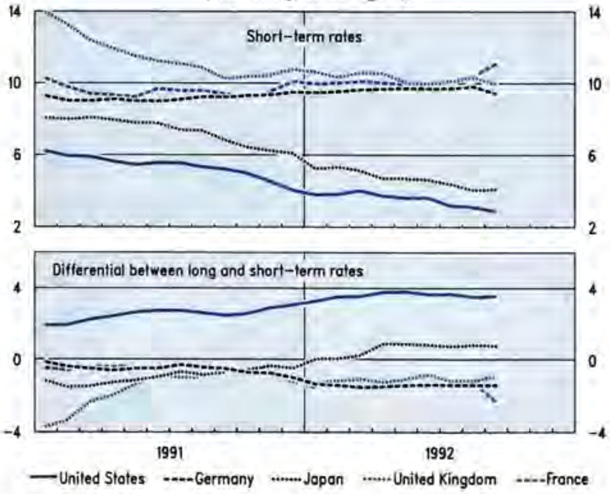
The monetary policies of the three leading industrial countries diverged even further during the year, with major repercussions on the leading currencies and the stability of the European Monetary System. The persistence of the economic downturn has led to a general worsening of public finances, as a result of built-in stabilizers, supplemented in some cases by discretionary measures.

Monetary conditions in the United States remained virtually unchanged between December 1991, when official rates were lowered, and the beginning of July, when expectations of a further weakening of economic activity prompted the Federal Reserve to reduce the discount rate by half a percentage point to 3 per cent – its lowest level for thirty years – and the rate on Federal funds to 3.25 per cent. Short-term yields, which had declined slightly up to June, reflected the fall in official rates and dropped below 3 per cent at the beginning of September (Figure 5). Starting from high nominal and real levels, long-term rates rose slightly until the spring, but gradually decreased as the outlook for growth worsened in the following months; by mid-October they were down to 6.5 per cent, one point less than in May.

Figure 5

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

(monthly averages)



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

The M2 and M3 aggregates have continued to grow more slowly than nominal income, staying well below their respective target ranges. The low rates on deposits and the reduction of the compulsory reserve ratio on some liabilities in April brought an improvement in banks' profitability. Nonetheless, bank lending to the private sector continued to expand very slowly, at a rate of just over 2 per cent, owing not only to the high lending rates but also to the weakness of demand.

In Japan moderate inflation and the pronounced weakening of economic activity led the authorities to relax monetary policy in a series of steps, designed also to limit the negative impact on banks' balance sheets of the collapse in share and real estate prices. The discount rate, which had been set at less than 5 per cent in December 1991, was lowered again at the start of April and at the end of July by a total of 1.25 per cent. This encouraged a fall in short-term yields to around 4 per cent in October, or two points less than at the end of last year; the decline in long-term rates was less pronounced.

The rate of growth in the reference aggregate (M2 + CDs) was again low, and dipped in August and September. The expansion in bank lending to the private sector slowed further, recording a rate of 4.7 per cent in July, compared with 9 per cent at the start of 1991. Banks continued their priority quest for improved profitability by further widening the differential between lending and deposit rates; they also tightened the criteria for assessing borrowers.

In Germany the monetary stance remained tight following the December 1991 increase in the discount and Lombard rates. Three-month interbank rates increased during the year and in June stood at 9.7 per cent, while yields on government bonds showed virtually no change and remained above 8 per cent. The negative slope of the yield curve became steeper, encouraging a massive portfolio shift towards the short-term financial assets included in M3. The growth in this aggregate, which was above the 3.5-5.5 per cent target range and equal to 8.7 per cent in June, was also fueled by the strong demand for investment finance in the Eastern regions, which is rendered insensitive to changes in market rates by generous subsidies. The Bundesbank judged this acceleration of M3 to be incompatible with the objective of stabilizing inflationary expectations and therefore further tightened monetary policy, despite signs that price inflation was slowing. With effect from the following day, on 16 July the discount rate was raised by 0.75 per cent to 8.75 per cent, the highest level since the Second World War.

Interest rates in the other EMS countries remained virtually unchanged until June, when turbulence developed in foreign exchange markets.

Public sector accounts deteriorated everywhere in comparison with 1991. In Germany, the United Kingdom and, to a lesser extent, in the United States and France the effect of fiscal policy is expected to be expansionary this year on a cyclically adjusted basis.

In the United States the Administration's forecast for the federal deficit in the 1992 fiscal year ending in September was recently revised downwards from $400 to $333.5 billion owing to the deferment until 1994 of payments relating to the winding up of savings and loans associations. The total, which is equal to 5.7 per cent of GDP, includes the social security system's surplus of about $50 billion. The deterioration compared with 1991 is thus $64 billion, or 1.1 per cent of GDP, which is attributable to cyclical factors and to increased expenditure on health. The outlook for federal finances in the medium term nonetheless remains worrying; according to the latest estimates, the objective of balancing the budget in 1996, as stated in the Budget Enforcement Act, will be missed by about $250 billion. The federal debt is expected to reach 50 per cent of GDP this year, double the figure for 1980.

The fiscal stimulus that the Japanese government introduced at the end of August, totaling almost 11 trillion yen and equal to 2.3 per cent of GNP, envisages a large increase of about 8.6 trillion yen in public investment, about 2 trillion yen in measures to stimulate private investment, and a number of provisions aimed at stabilizing the financial system and sustaining the share market.

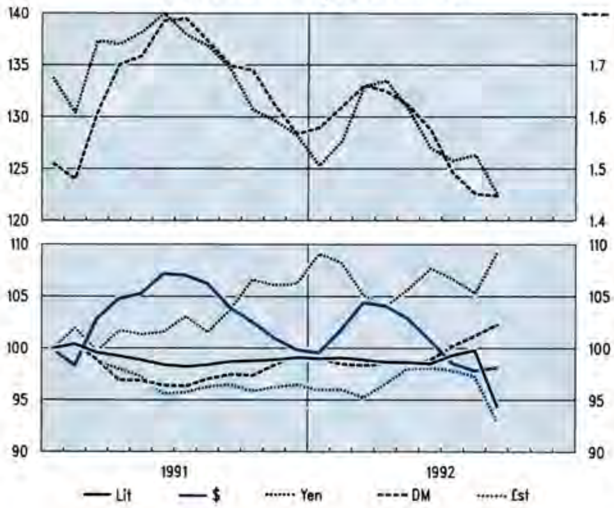
Germany's public finances are still suffering from the high cost of transfers to the eastern *Länder*. The Bundesbank has estimated that these will amount to DM 180 billion in 1992, or about 5.9 per cent of total German output, compared with 140 billion and 4.8 per cent last year. The rise in expenditure should be amply offset by higher revenue, most of it generated by the extraordinary measures adopted in July 1991. The impact on the accounts of the public sector, which includes the federal government, local authorities, the Fund for Unification and the social security system, is therefore likely to be limited. The deficit is expected to reach DM 130 billion this year, equal to 4.3 per cent of GNP, compared with 110 billion and 3.8 per cent in 1991. The deterioration is attributable to the social security system, which is expected to swing from a surplus of nearly DM 20 billion in 1991 to a deficit of DM 10 billion this year. This reflects the increased burden arising from the extension of welfare provisions to the Eastern regions. The borrowing requirement of the enlarged public sector, which includes the Treuhandanstalt, the Post Office and the state railways, is expected to rise to DM 180 billion, or about 5.9 per cent of GNP, as against 135 billion and 4.7 pr cent in 1991.

In France the objective of keeping the central government deficit unchanged at 1.9 per cent of GDP is unlikely to be achieved owing to growth having been slower than forecast, a lowering of the dividend tax rate from 42 to 34 per cent and the abolition of the top rate of VAT. The deficit could amount to 200 billion francs, or 2.8 per cent of GDP. In the United Kingdom the public sector borrowing requirement is expected to increase to 5.5 per cent of output, or 6.8 per cent if revenue from privatization operations is excluded, a deterioration of nearly 3 percentage points compared with 1991.

Figure 6

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

(indices, January 1991=100)



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

Between the beginning of July and the second week of September the dollar lost about 2 per cent in effective terms and nearly 8 per cent against the Deutschemark, falling on 2 September to an all-time low of 0.72 against the German currency. In real effective terms, the depreciation was 4.5 per cent compared with the average for April and 8 per cent when set against the average for 1987 (Figure 7). In the following weeks the dollar became highly volatile and by the second week of October was 4.3 per cent higher against the Deutschemark than in the first half of September.

Exchange rates

The dollar appreciated in the early part of the year, but then weakened as a result of the uncertainty surrounding the strength of the recovery and the results of the presidential elections (Figure 6). At the end of June the exchange rate against the Deutschemark was more than 8 per cent lower than in April, while the effective rate was down by 5 per cent. Following the reduction in the discount rate at the beginning of July, the fall of the dollar gathered new momentum, partly owing to the bleaker outlook for growth. Interventions by the leading central banks in the summer months were unsystematic and small, and plainly inadequate to break the trend.

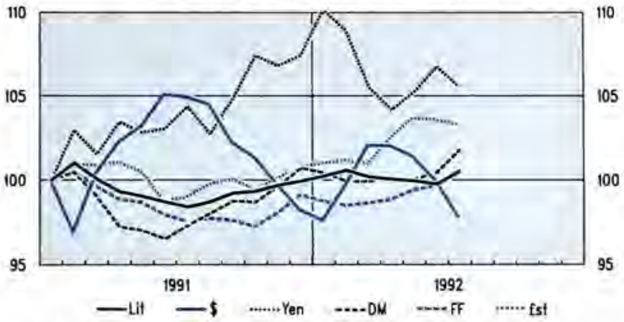
In the first months of the year the yen depreciated against all currencies as a result of the narrowing of the interest rate differential vis-à-vis the United States and Germany; at the beginning of April it had fallen by almost 8 per cent against the dollar and by 4.5 per cent in effective terms. From the end of August the yen was boosted by the impact of the government's fiscal programme and by the turmoil on the European foreign exchange markets, rising at the beginning of October to new highs against the dollar.

The Deutschemark's movements were inversely related to those of the dollar; after weakening slightly until the end of April, it appreciated, partly as a result of the short-term differential vis-à-vis the United States having widened to almost 7 points in the second week of September. During this period the Deutschemark appreciated by 18 per cent against the dollar and by 3.9 per cent in effective terms.

Figure 7

Real effective exchange rates (1)

(indices, January 1991=100)



(1) Based on producer prices of manufactures vis-à-vis a trade-weighted average of the other currencies.

Exceptionally powerful tensions developed in the European Monetary System from the beginning of June. The trouble was sparked by the negative result of the Danish referendum on 2 June, which fanned doubts about the ratification of the Treaty on European Union and the time required for the creation of the Monetary Union. In this situation, which was aggravated by the slowness of some EC countries in bringing their public finances and inflation into line, the increasing divergence between monetary policy in the United States and Germany and concern about the outcome of the French referendum in September, a realignment of EMS currencies came to be increasingly expected. This in turn triggered an unprecedented wave of speculation, which the defence mechanisms envisaged in the Basle-Nyborg agreements were unable to withstand.

The surge in the value of the Deutschemark affected different currencies to varying degrees; the lira and the currencies with wide fluctuation bands were the hardest hit.

Between the beginning of June and 11 September the lira fell by 1.6 per cent against the Deutschemark and reached the lower limit of the fluctuation band at the end of August (Figure 8); the Bank of Italy intervened frequently and often substantially. The German and Belgium central banks carried out compulsory interventions at the margin by activating the very-short-term credit facility. In Italy the discount rate was raised to 15 per cent on 4 September and the three-month interbank rate rose by 7.7 percentage points from the beginning of June to exceed 20 per cent on 11 September.

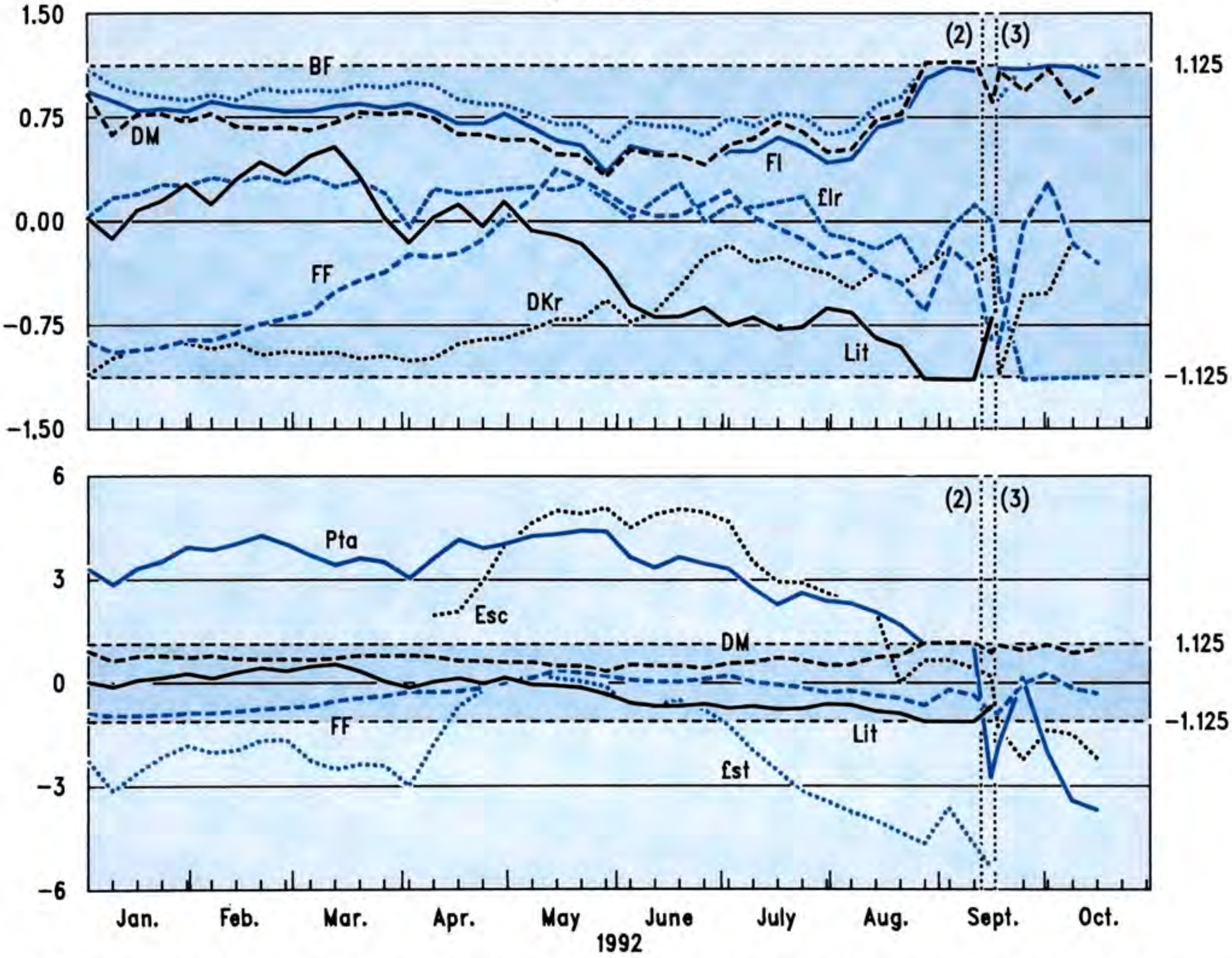
At the same time, in the wide fluctuation band the pound, the peseta and the escudo fell heavily against the Deutschemark, by 6, 4 and 6 per cent respectively. The Bank of England intervened in the market to support the pound; at the end of August the British government launched an international loan of 10 billion ecus to increase official reserves. The Bank of Spain first allowed the peseta to slide within the fluctuation band and then intervened at the end of August and the beginning of September, selling Deutschemarks and ecus and raising its intervention rate by 0.6 per cent.

The other narrow fluctuation band currencies were less affected by the turbulence; the Belgian franc and the Dutch florin stayed near the central rate vis-à-vis the Deutschemark, with small increases in the rates on advances. The Danish kroner weakened immediately following the referendum, but stabilized after the intervention rate was increased. In August the Irish pound slid to the lower part of the fluctuation band and the central bank intervened in Deutschemarks and dollars, as well as raising the reference rate by 0.25 per cent. The French franc's fall against the Deutschemark was fairly sharp, totaling more than 1.2 per cent from the beginning of June. The French authorities' countered the decline to some extent, but overall their interventions were on a small scale.

On 13 September the Italian and German authorities jointly proposed a realignment of the central parities within the EMS; the proposal was accompanied by an undertaking by the Bundesbank to reduce official German rates in proportion to the average appreciation of the Deutschemark within the System. In the end the lira devalued by 3.5 per cent, but all the other currencies stayed with the Deutschemark and revalued by the same amount. The cut in German rates was thus modest; the discount rate was lowered by 0.5 per cent to 8.25 per cent and the Lombard rate by 0.25 per cent, to 9.5 per cent.

Figure 8

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



(1) End-of-week data. – (2) On 13 September the central parity of the lira was realigned. – (3) On 17 September the central parity of the peseta was realigned, Italy temporarily suspended compulsory intervention and the pound sterling was suspended from the Exchange Rate Mechanism.

In the following days heavy speculative pressures developped in the final run-up to the French referendum and spread within the EMS. After unsuccessfully defending the pound with an increase in the base rate to 12 per cent and the announcement of a further increase to 15 per cent, the British Government was obliged to suspend its participation in the Exchange Rate Mechanism *sine die*. At the meeting of the EC monetary committee on 17 September the peseta was devalued by 5 per cent and the Italian authorities announced the temporary suspension of compulsory intervention.

Notwithstanding the favourable outcome of the French referendum on 20 September and the decline in German yields across the board, speculation spread to the French franc. The Bank of France and the Bundesbank had to make very large interventions, even though the rates on fixed-term advances had been raised to 13 per cent. The pressure was eased when the French and German governments announced an agreement reaffirming their intention to defend the exchange rate. In mid-October the French three-month interbank rate was still 2.5 points higher than Germany's.

Following the British monetary authorities' decision to reduce the base rate to 9 per cent, the pound fell to a new low against the Deutschemark. Spain, Ireland and Portugal attempted to counter the attacks on their currencies by reintroducing administrative constraints on capital movements. Spain, in particular, required banks to establish non-interest-bearing deposits on purchases of foreign currencies and set a ceiling of 7 per cent of total assets on their exchange positions. Although these measures afforded temporary respite for the peseta, their impact on other markets was negative. The Madrid bourse fell to its lowest level for five years and yields on government paper rose by almost 1 percentage point. On 5 October the Bank of Spain amended the non-interest-bearing deposit requirement, limiting it to very-short-term loans to non-residents and forward sales of foreign currency to non-residents against pesetas.

Between 11 September and 15 October German interest rates came down on average by about 0.8 percentage points. The day-to-day interbank rate fell from 9.72 to 8.95 per cent, the three-month rate from 9.8 to 8.95 per cent and the yield on government bonds from 8.22 to 7.55 per cent, while the Bundesbank reduced the rate on repurchase agreements significantly, from 9.7 to 8.9 per cent.

The storm caused by the Deutschemark's appreciation also had a profound effect on the Scandinavian currencies, which had fluctuated against the ecu within a unilaterally fixed band. After trying to resist the speculative pressures with massive interventions, on 8 September the Finnish authorities decided to uncouple the Finnish mark from the ecu and allowed it to depreciate by 13 per cent. Speculation then switched to the Swedish kroner, which had already come under pressure earlier. The Swedish authorities reacted drastically, hiking the marginal rate to 500 per cent in mid-September, although they had lowered it to 15.5 per cent by mid-October. At the same time a loan of 16 billion ecus and credit lines for 15 billion ecus were put in place in order to replenish the reserves. Sweden's low rate of inflation and small public debt allowed the central bank to defend the parity with the ecu and limited its devaluation against the Deutschemark to 3 per cent. The Norwegian authorities were also obliged to intervene repeatedly in defence of the Norwegian kroner and to raise the intervention rate from 9 to 11 per cent.

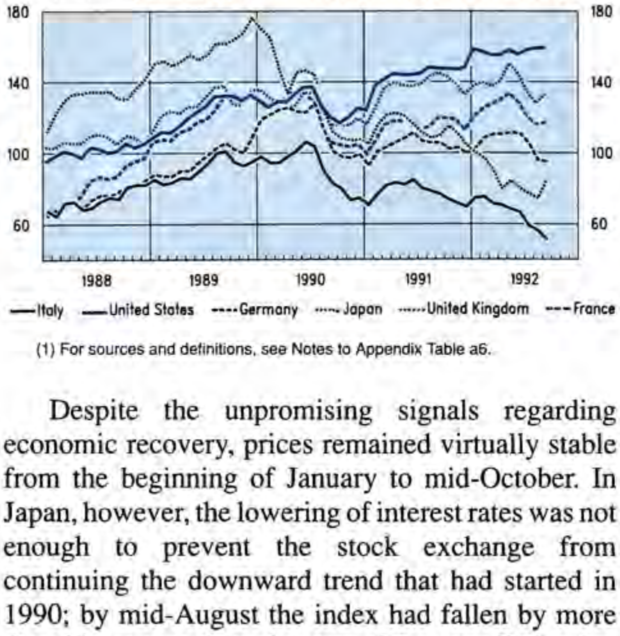
International financial markets

Stock markets were affected differently by cyclical developments and the changes in the leading economies' monetary stances. After weakening in the last few months of last year, prices on United States stock exchanges responded positively to the lowering of interest rates (Figure 9).

Figure 9

Share prices (1)

(monthly averages; indices, January 1987=100)

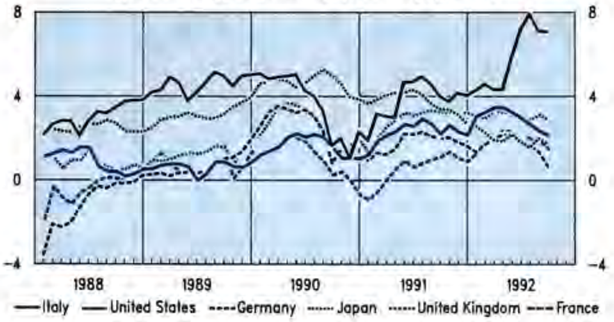


(1) For sources and definitions, see Notes to Appendix Table a6.

Despite the unpromising signals regarding economic recovery, prices remained virtually stable from the beginning of January to mid-October. In Japan, however, the lowering of interest rates was not enough to prevent the stock exchange from continuing the downward trend that had started in 1990; by mid-August the index had fallen by more than 34 per cent since the start of the year. Following the announcement of the government's programme to support the economy, the trend reversed and by the end of September prices had rallied by 17 per cent. Stock markets in France, Germany and the United Kingdom reacted similarly; after a rise that peaked in May, the downward revision of growth forecasts led to a decline in prices. The price/yield ratio stayed below the yields on bonds in all the leading markets; in recent months this differential has narrowed everywhere except in Italy (Figure 10).

Figure 10

Differential between bond and share yields (1)
(percentages; end-of-period figures)



Sources: National bulletins, Morgan Stanley and Bank of Italy.
(1) Share yields are calculated as the inverse of the P/E ratio x 100.

During the first nine months of 1992 activity in international financial markets showed only weak signs of recovery: gross financing provided by the capital markets amounted to approximately $345 billion, compared with $316 billion in the corresponding period of 1991 (Table 2).

Underlying this expansion is the increase in the value of the issues of securities, chiefly bonds, which amounted to $249 billion, an increase of nearly 9 per cent compared with the corresponding period of 1991. The figures for net bond issues are available only for the first quarter; they indicate that flows dropped to $26 billion, the lowest level since the end of 1990. There was also a decline in net funds intermediated to $30 billion in the first quarter, compared with $55 billion for the same period of 1991. Japanese banks' international liabilities, which fell by $127 billion in 1991, decreased by another $53.5 billion in the first quarter as a result of the slowdown in lending.

In the bond market fixed rate issues totaled $198 billion in the first nine months of the year. Thirty-seven per cent of this amount consisted of dollar issues, which benefited from the fall in interest rates during 1991, leading many issuers to refinance outstanding loans on more favourable terms. In the third quarter floating rate issues amounted to $18.6 billion, compared with $17.1 billion for the whole of 1991. A significant portion of the total was issued by financial institutions, much of it in the form of subordinated debt. Issues of convertible bonds and bonds with warrants totaled $12.9 billion, compared with $36.3 billion in 1991.

Ecu-denominated bond issues amounted to 15.7 billion in the first five months of the year, an increase of 9 per cent compared with the corresponding period of 1991. The result of the Danish referendum produced a sharp slowdown and between June and September issues totaled approximately 1.3 million ecus. The difficulties spread to the secondary market for these issues, leading to the suspension for one day at the end of July of market makers' obligation to trade in them. Since July the differential between the market rate and the yield calculated on the basis of the ecu's component currencies has turned positive, reflecting fears of a halt in the ecu's development as a currency. The Eurolira market grew strongly between January and May, climbing to nearly 9 trillion, compared with 4.5 trillion in 1991; only to fall sharply from June onwards, partly on account of extreme uncertainty concerning yields.

Table 2

Gross lending in international capital markets
(billions of dollars)

	1990	1991	1991 (1)	1992 (1)
Bonds (2)	229.9	297.6	228.6	248.7
of which: floating rate	*37.1*	*17.1*	*13.2*	*34.7*
Syndicated loans (3)	124.5	115.9	80.7	91.3
Back-up facilities (4)	7.0	6.4	6.2	5.2
Total	**361.4**	**419.9**	**315.5**	**345.2**
percentage breakdown by currency of bonds				
US dollar	33.3	28.5	28.8	36.8
Ecu	8.1	11.1	13.1	9.1
Pound sterling	9.5	9.1	10.0	7.1
Japanese yen	13.5	12.9	11.0	10.8
Deutschemark	8.3	7.1	6.5	8.2
Swiss franc	10.5	7.3	5.4	4.5
Other	16.8	24.0	25.2	23.5

Source: OECD.
(1) January-September. – (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.

Central and Eastern Europe, the former Soviet Union and the developing countries

Income continued to fall in the former republics of the Soviet Union during 1992: in Georgia and Armenia the main cause was political upheaval, while the Baltic economies and some energy-importing republics of Central Asia were heavily penalized by the pronounced worsening in the terms of trade with Russia.

Inflation remains extremely high on account of the rapid growth of credit and government deficits, which have led to an explosion of the monetary aggregates. Some of the republics have opted for monetary independence and replaced the rouble with national currencies: in Estonia this process was completed at the beginning of the summer, while the other Baltic republics and Ukraine are due to make the change in the near future.

Despite official and private creditors having suspended the payment of some instalments on the foreign debts of the former Soviet republics, a considerable backlog of debt servicing has accumulated; total arrears rose from $5 billion at the end of 1991 to $9 billion at the end of June.

In Russia industrial output fell by about 14 per cent in the first half-year compared with the first six months of 1991; inflation exceeded 700 per cent and the public sector deficit grew from 16 per cent of GDP in 1991 to 22 per cent. The economic situation deteriorated dramatically in the summer. Industrial output declined even further, inflation accelerated, and the rouble fell by more than 50 per cent against the dollar between the beginning of July, when the regime of free fluctuation was introduced, and mid-October. These developments risk jeopardizing the implementation of the stabilization programme and accelerating capital flight. According to the IMF, in the first six months of 1992 Russia received $10 billion of financial assistance from the EC and other industrial countries, of which $8 billion was in the form of loans and donations and $2 billion of reductions in debt servicing.

In other countries of Central and Eastern Europe there were signs of an improvement in productive activity. The most glaring exceptions were Albania, where the social situation continues to be critical, and ex-Yugoslavia, devastated by civil war. In Poland output is expected to grow by 1.5 per cent this year, after declining for three years in succession. A turnaround in Hungary and Czechoslovakia is expected by the end of the year. The strong growth of these three economies' exports to the industrial countries and, in particular, to Europe has enabled them to make good nearly all the fall in the demand of the former Comecon nations. In the remaining countries of Central and Eastern Europe, on the other hand, the dissolution of Comecon has continued to contribute significantly to the decline in output.

The strict monetary stance adopted in Poland, Bulgaria and Czechoslovakia has caused inflation to slow markedly. The IMF has forecast that the rate of increase in consumer prices will fall from 70 per cent in 1991 to 45 per cent in Poland, from 340 to 80 per cent in Bulgaria; and from 59 to 13 per cent in Czechoslovakia. The rapid growth in government deficits in these countries owing to the fall in income and the rise in social spending continues to cause serious concern. Poland's failure to reduce its deficit in line with the target led the IMF to suspend financing in September 1991; the programme agreed with Hungary was halted in May of this year on similar grounds. Czechoslovakia, Hungary and Romania have made considerable progress in the privatization of state-run enterprises. However, Poland's privatization plan, which affects 35 per cent of firms and was drawn up at the end of 1991, was only approved by Parliament last August.

The debt indicators should show some improvement, thanks partly to the debt-reduction and rescheduling agreements with Poland and Bulgaria. The debt-to-exports ratio for the whole area should thus fall from 167 per cent in 1991 to 162 per cent, while the ratio of interest payments to exports should fall from 18 to 15 per cent. Official financing fell by 50 per cent to $6 billion, while inflows of private capital were unchanged at $6 billion.

In the developing countries the success of stabilization and trade liberalization policies has considerably improved productivity and external competitiveness, as well as bringing faster growth. Recent estimates forecast that income growth in these countries will accelerate from 3 per cent in 1991 to 6 per cent, the best outturn for the last ten years. Inflation fell sharply last year and is expected to remain unchanged at around 40 per cent. Growth is expected to be particularly strong in the Middle East and in the Asian LDCs, at 10 and 7 per cent respectively, while remaining unchanged at 3 per cent in Latin America. By contrast, in Africa it is not expected to exceed 2 per cent, on account of the serious drought in the southern part of the continent and civil wars in a number of countries.

Exports are a major factor in LDCs' performance. In 1992 they are expected to grow by 8 per cent, almost double the figure for world trade. Imports are also expected to accelerate by 8 per cent, especially in Asia and Latin America, where the growth is forecast at 11 per cent: this would lead to a marked widening of the current account deficits of both areas. In Africa, the deterioration of current account balances is also a result of the worsening of the area's terms of trade by 6 per cent in 1991 and 5 per cent this year.

According to official estimates, private and official financing to LDCs is expected to amount to $135 billion in 1992, $32 billion more than last year. The ratio of gross debt to exports should remain virtually the same as in 1991, when it was 123 per cent; nonetheless, the sharp fall in dollar interest rates in the last two years has facilitated the payment of arrears and debt servicing. Mexico, which is one of the countries to have achieved considerable success in reducing debt, could also benefit from the effects of the NAFTA trade agreement reached in August with the United States and Canada. The indebtedness of many middle – and low – income countries remains worrying; among these are the Congo, the Ivory Coast and Ecuador, where negotiations to reduce banks' exposure have not made any progress, partly as a consequence of the disappointing results of these countries' adjustment plans.

The Italian economy and the balance of payments

The difficulties that emerged in the foreign exchange and capital markets at a time when the prospects for the Italian economy were already darkening caused the outlook to deteriorate further.

The cyclical slowdown began to lengthen and deepen from the spring onwards. The rate of growth in economic activity, which had shown hesitant signs of recovery in the first quarter, lost momentum in the second. On the basis of preliminary quarterly national accounts data, gross domestic product in the first half-year was 1.6 per cent higher than in the corresponding period of 1991.

The slowdown in growth in the second quarter was due not only to a weakening of foreign demand as the recession in the leading industrial economies deepened, but also to a slackening of domestic demand owing to increasingly pessimistic expectations about the prospects for recovery. As a result, the growth of both imports and exports decreased.

The current account of the balance of payments on a transactions basis showed a deficit of more than 18 trillion lire in the first six months of 1992, a deterioration of 3 trillion by comparison with the first half of 1991; only 1.3 trillion of this was due to a worsening of the trade deficit. Customs data indicate an improvement in the trade balance in July and August, thanks mainly to slower growth in the volume of imports.

As in 1991, households' consumption was out of step with cyclical developments; in the first quarter it continued to grow rapidly, increasing at a faster rate than in the latter part of 1991. It was not until the second quarter that signs of a slowdown began to appear. They have presumably strengthened in the last few months following the downward revision of income expectations, the damage to confidence partly as a result of delay in announcing measures to reduce the budget deficit, and the emergence of significant fears of illiquidity and capital losses on holdings of government securities. The behaviour of investment, by contrast, fully reflected and amplified the slowdown in economic activity; on a seasonally adjusted basis, gross fixed investment in the first six months of the year was almost 1 per cent lower than in the last half of 1991.

The deterioration in the economic climate was felt most in industry, where output began to fall again in the spring. In the first eight months of the year industrial output was only 0.9 per cent higher than in the corresponding period of 1991. The downturn in the cycle is confirmed by increased recourse to the Wage Supplementation Fund and the fall in employment in large industrial companies.

Consumer price inflation accelerated slightly in January but continued downwards thereafter, although it remained above 5 per cent. The decline, which was less pronounced than it might have been on account of the faster rise in the prices of services, was induced by the slowdown in labour costs during the year and, from the second quarter onwards, by an improvement in the terms of trade due to the depreciation of the dollar. According to estimates, manufacturing industry's variable unit costs decelerated sharply, increasing by only 2.2 per cent between the second half of 1991 and the first half of 1992 and by less than producer prices, which rose by 2.4 per cent. Hence, the narrowing of profit margins that began three years ago appears to have come to an end. The inflation differential vis-à-vis the other members of the European Community averaged around 1 per cent in the first six months of the year, compared with 1.7 per cent in the second half of 1991.

Domestic demand and industrial output

The disparities that developed in the behaviour of the various components of domestic demand in 1991 were again evident in the first half of 1992. Consumer spending continued to rise at a sustained pace, at odds with the cyclical state of the economy. This may have reflected not only the persistent medium-term rise in the average propensity to consume, but also the belief that the cyclical slowdown would be short-lived, a view encouraged by the brief recovery at the beginning of the year. Households' final domestic consumption rose by 0.7 per cent between the last quarter of 1991 and the first quarter of this year (Table 3) and underpinned the increase in domestic demand, which rose by 0.5 per cent. The rise in consumer spending slowed down by almost half a percentage point in the second quarter, owing mainly to slower growth in purchases of durable goods.

The signs of a contraction in employment from the early summer onwards, the smallness of the wage increases stipulated for the remainder of 1992 and 1993 in the agreement on labour costs signed at the end of July, and the increases in taxes contained in the fiscal stabilization package in July led to greater uncertainty about the prospects for disposable incomes and caused consumers to revise their expectations downwards. The surveys carried out by Isco show that household confidence deteriorated rapidly in June and July, after having remained largely unchanged for the first five months of the year; by September the indicator had fallen to a particularly low level, lower even than at the time of the Gulf conflict (Figure 11). Indicators of the expected rise in unemployment and households' perception of their economic situation showed a similar deterioration. Seasonally adjusted car sales fell by 15,300 in August and by a further 3,000 in September. On the basis of information on bank lending to consumer credit companies, consumer credit was still expanding strongly until April, but slowed down sharply in July.

In the first half of the year gross fixed investment was 0.8 per cent lower than in the second half of 1991. The more pronounced decline in industrial investment, which had been predicted in a survey of the manufacturing sector carried out in January by the Bank of Italy and confirmed by the half-yearly survey by Isco in the spring, was due partly to uncertainty about the behaviour of final demand in the medium term and partly to the cost of borrowing, which was made even more of a constraint by the simultaneous contraction in firms' internal financial resources. The share of investment aimed at expanding capacity declined, while that of spending on plant rationalization increased.

The contraction in investment was concentrated in spending on machinery and equipment and transport equipment, which fell by 2.3 per cent between the last quarter of 1991 and the first quarter of 1992. Building investment, on the other hand, rose by 0.9 per cent over the same period, confirming that conditions in the sector are still favourable.

Table 3

Households' consumption and gross fixed investment

(at 1985 prices; seasonally adjusted; percentage changes on previous period)

	1991	1991				1992	
		Q1	Q2	Q3	Q4	Q1	Q2
Households' final domestic consumption	2.8	0.6	0.7	0.4	0.8	0.7	0.3
of which: non-durable goods	*2.1*	*0.3*	*0.7*	*0.7*	*0.2*	*0.5*	*0.6*
semi-durable goods	*2.5*	*0.2*	*0.1*	*–0.3*	*1.7*	*0.5*	*–0.2*
durable goods	*3.9*	*1.7*	*0.6*	..	*1.6*	*1.6*	*0.3*
services	*3.2*	*0.8*	*1.0*	*0.5*	*0.5*	*0.8*	*0.4*
Gross fixed investment	0.9	–1.0	1.8	2.3	0.4	–0.3	–1.4
of which: machinery, equipment and transport equipment	*0.7*	*1.7*	*2.1*	*3.6*	*0.8*	*–1.6*	*–2.3*
construction	*1.2*	*–0.2*	*1.5*	*0.9*	..	*1.1*	*–0.5*

Source: Istat.

The contraction in investment probably continued in more recent months. A survey carried out at the end of September by the Milan branch of the Bank of Italy among a selection of the manufacturing firms polled in the annual investment survey in Lombardy indicated that in almost 40 per cent of firms investment carried out in the first three quarters of 1992 was lower than had been planned at the beginning of the year, which in turn was less than actual investment in 1991. The scaling-down of spending plans mainly afffected medium and large firms and those producing intermediate and capital goods. The survey also suggests that the fall in industrial investment may continue next year, although at a more moderate pace, and may spread to firms producing consumer goods; it is also likely to entail a further decline in employment.

Figure 11

Confidence, expected unemployment and view of the economic situation of households

Sources: Based on Isco data; the data for August, when no survey is taken, are calculated as simple averages of those for the two adjacent months.

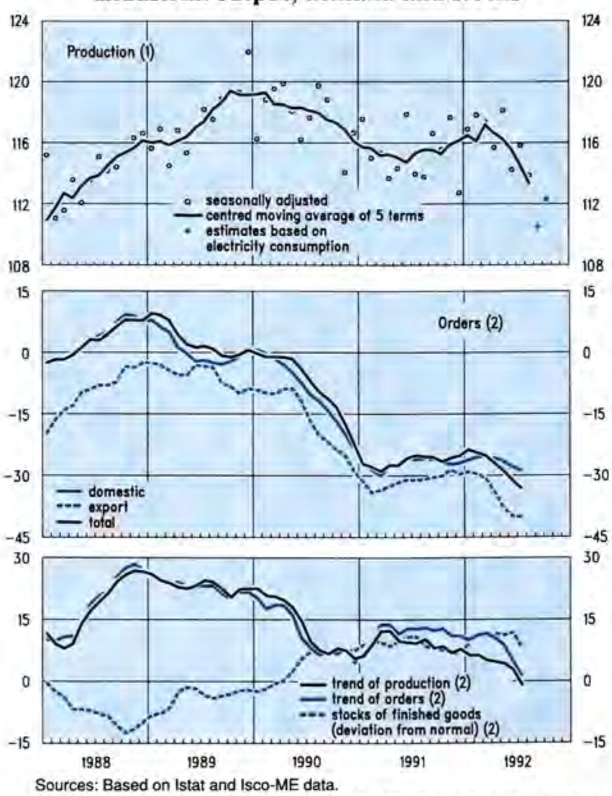
(1) Index (1980=100). – (2) Index (1986=100); proportion of those interviewed who expected unemployment to increase in the next twelve months. – (3) Index (1986=100); proportion of those interviewed who indicated a deterioration in the economic situation of the household in the past twelve months.

Industrial output increased in the first quarter but contracted thereafter (Figure 12). In the first eight months of the year the production index (corrected for the number of working days) was about 1 per cent higher than in the same period of 1991. On the basis of provisional data for August and estimates based on electricity consumption in September and the first fourteen days of October, industrial output is thought to have declined slightly in the first ten months of 1992.

The shift in demand towards consumption and away from investment was reflected in a similar change in the composition of industrial output according to economic purpose. This resulted in an increase in the production of intermediate and consumer goods, which rose by 1.4 and 3.4 per cent respectively between the first seven months of 1991 and the same period of 1992, and a contraction of 4.3 per cent in the production of capital goods. However, data on the second quarter indicate both a more pronounced fall in the output of capital goods and a slowdown of the growth in that of consumer products. The downturn initially affected only a small number of branches, partly on account of the above-mentioned changes in the composition of final demand, but it gradually spread throughout the industrial sector.

Figure 12

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 in the month. – (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.

Cyclical analysis of industrial production by branch and economic use of product

The present cyclical slowdown has been less severe in some sectors than the recession of the early eighties, but it has been equally protracted and widespread.

The consumer goods industry as a whole has not yet suffered a prolonged contraction of activity in the wake of the productive upswing. The output of final consumer goods has risen without interruption since the last trough in 1983, but since July 1989 the industry has been in a "growth recession", with a slowdown in the expansion of output compared with the long-term trend rate of growth (Figure 1). In the cyclical downswing of the early eighties, by contrast, output of final consumer goods fell by about 10 per cent.

Figure 1

The industrial cycle (1)
(deviation from trend)

(1) Series estimated using seasonally adjusted indices for the individual sectors, net of erratic and trend components. The trend component has been estimated using an exponential function, by means of rolling regression over a fixed period of ten years: for each month the trend was set equal to the value given by the regression ending in that month. Shaded areas indicate "growth recession" for Italian industry as a whole.

In the consumer durables sector the cyclical slowdown began at the end of 1988 and by the end of the following year the industry had entered a period of stagnation. Nevertheless the current slowdown in this sector has been less severe than the previous one, in which output fell by around 20 per cent between the peak in March 1980 and the trough in June 1983.

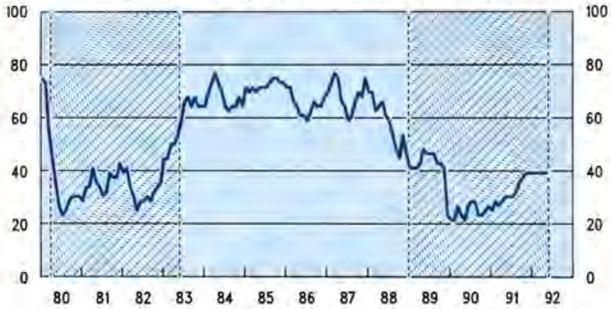
The current phase of the cycle has proved especially difficult for the capital goods industry, where output has contracted by 10 per cent from its March 1990 peak. Here too, however, the recession has been milder than the previous one, when output fell by 15 per cent.

The cyclical downswing has also varied between branches. Considering the 15 industrial branches of the 28-group NACE-CLIO classification, five have seen a slowdown in growth rather than an actual downturn: energy products, ferrous and non-ferrous ores and metals, food products, paper and printing and rubber and plastic products. The recession has been most severe for agricultural and industrial machinery and transportation equipment, where output has declined respectively by 30 and 13 per cent from the last peak.

A measure of the extent of the recession is given by the diffusion index, the proportion of sectors in expansion as a percentage of the total number (Figure 2). The sectors considered are those of the 57 output series used in constructing the Bank of Italy's capacity utilization index. The state of the cycle in each sector is determined on the basis of "growth cycle" criteria.

Figure 2

The industrial cycle historical diffusion index (1)
(percentage of branches in expansion)



(1) The index is constructed on the basis of the 57 output series used to compile the Bank of Italy's index of capacity utilization (see Banca d'Italia, Temi di discussione, No. 81, 1986). The "growth cycles" of the elementary series have been calculated using an automatic routine to locate turning points (see NBER, Cyclical analysis of time series: selected procedures and computer programs, New York 1971). Shaded areas indicate "growth recessions" for Italian industry as a whole.

After peaking at 75 per cent at the end of 1987, this indicator dropped steadily to around 20 per cent in the first few months of 1990. This was slightly lower than at the depth of the recession of the early eighties, when the proportion of expanding industries never dropped below 25 per cent.

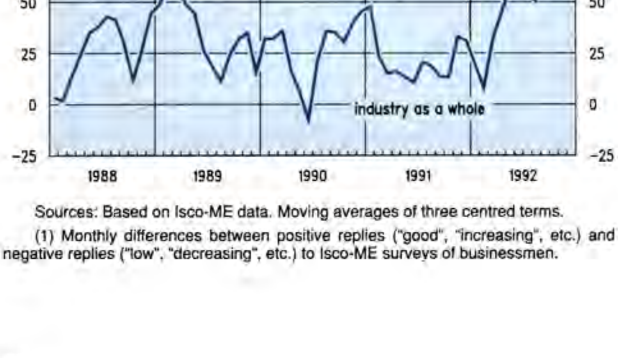
The subsequent rise does not necessarily indicate that a recovery has started, however. The number of expanding sectors, which the latest data for 1992 put at around 40 per cent, is still too low. The indicator fluctuated sharply during the previous cyclical downturn, but the recession did not end until it had risen above 60 per cent.

The monthly Isco surveys of industrial firms, the results of which are available up to July, consistently indicate a deterioration in business sentiment from the spring onwards (Figure 12). The level of orders, which had recovered at the end of 1991, declined again; orders from abroad declined more sharply and earlier than domestic orders. Expected demand three to four months ahead behaved in a similar fashion, recovering slightly between February and April and then falling to a record low. The deterioration in expected demand related to both capital goods and intermediate and consumer goods. Stocks of finished goods had fallen to more normal levels during the second half of 1991, but in the first few months of this year firms again reported that they were rising. The decline in production probably permitted a slight readjustment of inventories in July.

Capacity utilization rates fell in the second quarter of the year, after having increased for two consecutive quarters. They are now around 5 points below the peak recorded at the end of 1989. A growing proportion of companies consider their available capacity to be more than sufficient.

Figure 13

Liquidity of firms and businessmen's perception of the trend in the cost of money
(seasonally adjusted)



Sources: Based on Isco-ME data. Moving averages of three centred terms.
(1) Monthly differences between positive replies ("good", "increasing", etc.) and negative replies ("low", "decreasing", etc.) to Isco-ME surveys of businessmen.

The deterioration in the economic climate was also reflected in the liquidity of industrial firms. The liquidity indicator, which is calculated by Isco from the results of company surveys, had shown a worsening during 1991, partly owing to the squeeze on profit margins; it improved slightly in the first few months of this year but then turned down again in connection with the increases in the cost of money and the fall in sales (Figure 13).

Employment and the labour market

The employment picture shows signs of worsening. According to the Istat labour force survey, the twelve-month rate of growth in total employment reached zero in January, after having diminished throughout 1991. The subsequent survey was conducted in May rather than at the customary time in early April and thus does not allow correct comparisons to be made with previous periods; nevertheless, it continued to show a rate of unemployment of nearly 11 per cent.

Labour shedding by industrial firms with more than 500 employees intensified. Year on year, their aggregate workforce contracted by 4.8 per cent in the first seven months of 1992, including a 2.5 per cent reduction in clerical staff.

There was a large increase in recourse to the Wage Supplementation Fund. In the first half of 1992 the number of hours of wage supplementation was 20 per cent higher than a year earlier; ordinary wage supplementation, which is highly sensitive to cyclical fluctuations, showed an increase of more than 30 per cent. On a seasonally adjusted basis, the number of full-time equivalent workers receiving benefits in industry as a whole rose to 267,000 (27,000 more than in the preceding half-year), with the South accounting for almost 40 per cent of the total (Table 4). By contrast, wage supplementation in the construction sector diminished slightly.

There were regional differences in the behaviour of the unemployment rate, which fell in the South and rose in the Centre and North. This reflected the geographical concentration of industry, which lost jobs.

The agreement of 31 July on incomes policy, disinflation and labour costs

The protocol signed on 31 July by employers, unions and the Government marks a crucial passage in the prolonged negotiations that followed the Confindustria's decision in June 1990 not to renew the scala mobile *wage indexation agreement upon its expiration in December. In July of that year the two sides in industry agreed to defer talks on the matter, at the same time proceeding with the contract negotiations then under way and retaining the existing* scala mobile *mechanism until 31 December 1991, as ratified by Law 191 of 13 July 1991. It was further decided to broaden the scope of the talks from wage indexation arrangements to the entire system of industrial relations.*

The negotiations actually started in June 1991. Although it was agreed that the rate of increase in labour costs had to be curbed, the positions of the two sides were very far apart both on the role of a revised wage indexation system and on the competences of the various collective bargaining levels. The unions called for the role of collective bargaining to be enhanced by generalizing company-level agreements while retaining some automatic safeguards. The employers sought an immediate curb on the growth of nominal wages and, in the longer term, more predictable wage dynamics by reducing the number of bargaining levels and their overlap.

In view of these differences, in December 1991 the two sides reached a preliminary agreement that there would be no further extension of the scala mobile *law, but put off the negotiations on the broader issues until June 1992 .*

The protocol signed on 31 July of this year first settled the dispute over the interpretation of the December accord and recognized the definitive termination of the scala mobile. *As an interim measure the agreement provided for a payment of 20,000 lire per month in 1993 (including the "thirteenth month"), as a separate item to be incorporated subsequently into base pay. The two sides also agreed to suspend company-level wage bargaining in 1993. The overall effect will be a deceleration in the growth of nominal wages and salaries.*

On public sector employment, the Government undertook to negotiate with the trade unions on measures to bring public employment rules gradually into line with those obtaining in the private sector. As to public sector wages and salaries, Decree Law no. 384 of 19 September extended the 20,000-lira monthly increase to public employees and postponed the entry into force of any intervening wage settlements until January 1994.

The July agreement does not establish new arrangements regarding bargaining levels, although it does designate the collective employment contract as the essential instrument for fixing nominal wages and provides for twice-yearly joint assessment of the economic situation. It nonetheless lays down guidelines for further discussions: "bargaining levels that shall be distinct and not overlap, and whose spheres of competence, timetables and procedures shall be specified accordingly; provision for the partial safeguarding of purchasing power during any protracted interruption in contract coverage, which will also act as an incentive for the regular conduct of the negotiations". Talks were to resume along these lines in mid-September, but they have not yet started.

The protocol also includes Government commitments on public prices and service charges, fiscal policy and price monitoring, as well as measures to promote investment and sustain employment. The Government also recently extended eligibility for special Wage Supplementation benefits in 1993 to industrial firms with between 5 and 15 employees located in the South or designated areas of economic hardship; it also opened the State Employment Service mobility lists to redundant workers from firms with fewer than 15 employees.

Table 4

Full-time equivalent workers receiving wage supplementation (1)

(thousands; seasonally adjusted)

	1990	1991	1991				1992	
			Q1	Q2	Q3	Q4	Q1	Q2
Construction	35	43	39	47	48	40	45	40
Industry excluding construction	158	189	172	192	186	205	233	215
Total industry	**192**	**232**	**211**	**238**	**234**	**245**	**278**	**255**
of which: in the South	*77*	*91*	*85*	*99*	*93*	*88*	*104*	*98*

Sources: Based on Istat and INPS data.
(1) Estimated on the basis of contractual hours.

After the pronounced acceleration recorded in the second half of 1991 as a result of wage settlements, the growth in gross contractual wages and salaries in the private sector slowed down. In industry, the twelve-month rate of growth fell from around 11 per cent in December 1991 to 9.4 per cent in January and 3.8 per cent in August. The average year-on-year increase in the first eight months of 1992 was 6.7 per cent. In wholesale and retail trade, the average increase in the same period was half that recorded in 1991 (5.3 per cent, compared with 10.4 per cent). The rise in contractual wages and salaries in general government was much smaller: 1.8 per cent in the twelve months to August and an average of 2.6 per cent in the first eight months of the year.

On July 31 the negotiations on labour costs that had commenced in the second half of 1991 produced a protocol of understanding between the two sides of industry and the Government. The purpose of the agreement was to lay the basis of a wages and prices policy capable of reducing the inflation rate to 2 per cent by the end of 1994. To this end, measures to curb the growth in private and public sector wages were agreed. The provisions for the private sector comprise the abolition of the *scala mobile*, a compensatory payment of 20,000 lire a month in 1993 (equivalent to a rise of less than 1 per cent in average wages) and a freeze on supplementary company-level wage settlements for all of 1993. Average gross per capita wages should accordingly increase by less than 5 per cent in 1993. For the public sector, the agreement provides for 1993 wage increases to be kept within the target inflation rate of 3.5 per cent. The Government subsequently extended the provisions for the private sector to the public sector and suspended the renewal of the public employment contracts until the end of next year. In 1993 per capita wages in the public sector should rise by around 1 per cent.

Costs and prices

The inflation rate, calculated as the twelve-month increase in the cost-of-living index, declined from 6.1 to 5.4 per cent in February. It picked up slightly in March and continued to fluctuate at around 5.6 per cent in the next four months (Figure 14).

Figure 14

Consumer prices

(percentage changes on year-earlier period)

Source: Istat.
(1) From February 1992 the index no longer includes the prices of tobacco products.

The fall in inflation only resumed in August and September, most probably as a consequence of the slowdown in labour costs and the depreciation of the dollar; in September the rate dropped to 5.2 per cent. According to preliminary data from a sample of large cities, the cost of living rose by 0.6 per cent between September and October, reflecting the devaluation of the lira to only a small extent. The twelve-month rise in the index diminished further to 5 per cent. There is a risk that progress in reducing inflation will come to a halt towards the end of the year as the effects of the rise in the lira prices of imports work through.

Input prices in manufacturing industry slowed down markedly in the first half, according to preliminary estimates: the increase compared with a year earlier was 2.4 per cent, as against 3.7 per cent in the second half of 1991 (Table 5).

Table 5

Unit variable costs and final output prices in manufacturing
(percentage changes on year-earlier period)

	1991	1991		1992(1)
		H1	H2	H1
Input prices	**4.5**	**5.4**	**3.7**	**2.4**
Domestic	7.4	8.7	6.2	4.3
of which: energy	*8.6*	*14.9*	*2.7*	*–2.4*
services	*7.8*	*8.6*	*7.0*	*5.7*
agricultural products	*4.5*	*4.6*	*4.4*	*2.8*
Foreign	–0.7	–0.6	–0.9	–1.5
of which: energy	*–3.2*	*10.1*	*–14.3*	*–12.6*
Unit labour costs	**6.6**	**9.2**	**3.9**	**2.0**
Unit variable costs	**5.5**	**7.3**	**3.8**	**2.2**
Output prices	**2.8**	**2.9**	**2.6**	**2.4**
of which: on the domestic market	*2.9*	*2.9*	*2.9*	*2.7*

Source: Based on Istat data.
(1) Provisional and partly estimated.

The prices of imported inputs declined, while the twelve-month rate of increase in those of domestic inputs fell by nearly two points, from 6.2 to 4.3 per cent; in both cases the improvement reflected the fall in energy prices. The rise in the prices of services used in manufacturing also slowed down, from 7.0 to 5.7 per cent. Unit labour costs are estimated to have slowed down sharply (from 9 to 4 per cent between the first and second halves of 1991 and to 2 per cent in the first half of this year), owing partly to the diminishing effects of the substantial wage and salary increases agreed in the previous wage round and partly to the progressive rise in productivity as the impact of the recession on employment became increasingly evident.

The result was appreciably slower growth in unit variable costs compared with 1991. Output prices continued to rise at a moderate rate in the first half of 1992, increasing by 2.4 per cent compared with a year earlier and decelerating slightly from the second half of 1991 (Table 5). The disparity that had developed at the beginning of 1989 between the rise in output prices and that in unit variable costs, and which had completely offset the considerable widening of profit margins recorded in the wake of the oil countershock, has therefore been eliminated (Figure 15).

Figure 15

Output prices and unit variable costs in manufacturing
(percentage changes on year-earlier period)

Sources: Based on Istat and ENI data.

The general index of consumer prices corroborated the fall in inflation shown by the cost-of-living index. The rise in the twelve months to May – the latest month for which data are available – was 5.6 per cent, compared with 6.1 per cent in the twelve months to January. As in recent years, the steepest increase (more than 7 per cent) was in the prices of services.

The increase in the prices of regulated goods and services included in the general consumer price index was smaller than that for unregulated goods and services, continuing a tendency that had emerged in the second half of last year: the average twelve-month rise in the first four months of this year was 3.9 per cent for the former, as against 6.2 per cent for the latter. The fact that unregulated prices rose more rapidly than industrial output prices appears to indicate a further increase in mark-ups.

The balance of payments on current account

Unadjusted data indicate that the current account deficit was equal to 18.5 trillion lire in the first half of 1992, an increase of 3.2 trillion on the first half of 1991 (Table 6). The deterioration involved all the main items: the deficit on goods increased from 3.9 to 5.2 trillion lire, the surplus on foreign travel contracted from 4.9 to 4 trillion, the deficit on investment income grew from 9.4 to 10.2 trillion and that on other invisibles from 7 to 7.2 trillion.

By contrast, seasonally adjusted data show an improvement of nearly 3 trillion lire in the current account between the second half of 1991 and the first half of this year.

The improvement in the trade account in July and August was also evident from the unadjusted data: on a *cif-fob* basis, the trade surplus for the two months was around 2.4 trillion lire larger than a year earlier, owing mainly to the fall in imports.

Confirming recent trends, the increase in the trade deficit in the first half compared with the previous year was due to a decline of 3.1 per cent in the export/import ratio in volume terms, which was only partly offset by a further improvement of 1.8 per cent in the terms of trade (Table 7). The deterioration in the export/import ratio reflected primarily the slow growth in the volume of exports, which was only 3.6 per cent higher than in the first half of 1991 despite good results in the first quarter; one factor in this was the continuing weakness of world demand, and in particular the disappearance of the boost to Italian exports from the surge in German domestic demand the previous year.

Table 6

Current account of the balance of payments on a transactions basis

	1991			1992 (1)
	Year	H1	H2	H1
	(balances in billions of lire)			
Memorandum item:				
Goods (*cif-fob*) ...	–16,021	–11,591	–4,430	–13,401
Goods (*fob-fob*) ...	–923	–3,894	2,971	–5,157
Invisibles	–25,303	–11,422	–13,881	–13,351
Foreign travel ...	8,402	4,920	3,482	3,988
Investment income	–19,992	–9,380	–10,612	–10,149
Other services, income and transfers	–13,713	–6,962	–6,751	–7,190
Total	**–26,226**	**–15,316**	**–10,910**	**–18,508**
	(balances in billions of lire, sesonally adjusted)			
Memorandum item:				
Goods (*cif-fob*) ...	–16,021	–7,220	–8,801	–8,568
Goods (*fob-fob*) ...	–923	583	–1,506	–474
Invisibles	–25,303	–10,696	–14,607	–12,724
Foreign travel ...	8,402	5,245	3,157	4,335
Investment income	–19,992	–9,331	–10,661	–10,121
Other services, income and transfers	–13,713	–6,610	–7,103	–6,938
Total	**–26,226**	**–10,113**	**–16,113**	**–13,198**

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

Export growth was also restrained by a loss of competitiveness. On the basis of the producer prices of manufactured goods, the lira appreciated by 0.4 per cent in real terms in the first half of the year, despite a nominal depreciation of more than 0.5 points. Between the first quarter of 1987, the time of the last realignment of the lira's central rates within the broad band, and the second quarter of 1992, the loss of competitiveness on this basis amounted to 3.6 per cent (Figure 16). If unit labour costs are used to calculate the real exchange rate, the appreciation over the same period was larger, amounting to 9.3 per cent with reference to Italy's main trading partners and 7.3 per cent vis-à-vis the EC countries. In evaluating the extent to which industrial profit margins were eroded by the divergence between the two indicators, it should be borne in mind that profit margins were very high in 1987.

Table 7

Merchandise trade, *cif-fob*: values, prices, volumes
(percentage changes on year-earlier period)

	Year	1991 H1	1991 H2	1992 (1) H1
Exports:				
Value	3.1	3.5	2.6	3.9
Price	2.9	3.7	2.2	0.3
Volume	0.1	–0.3	0.5	3.6
Imports:				
Value	3.7	3.4	4.1	5.1
Price	–0.8	0.9	–2.4	–1.4
Volume	4.5	2.3	6.8	6.7
Terms of trade	3.6	2.7	4.5	1.8
Export/import ratio (2)	–4.2	–2.4	–5.8	–3.1

Source: Istat.
(1) Partly estimated. – (2) In volume terms.

The more marked nominal depreciation of the lira against EC currencies and the slowdown in the deterioration in relative prices vis-à-vis the other EC countries made it possible to halt the loss in competitiveness in this area in the first half of the year. In particular, competitiveness vis-à-vis Germany and the United Kingdom, which together account for more than 45 per cent of Italy's exports to the the Community, improved by 0.9 and 1.2 per cent respectively in relation to the first half of 1991 (Table 8).

In the first half of this year imports were 6.7 per cent higher in volume than a year earlier. Disregarding the statistical distortion in March owing to the customs strikes of March 1991, the pace of imports tended to slacken during the first half; the slowdown was particularly marked in May and June, as the earlier hesitant signs of an upturn in production faded away.

Figure 16

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

(1) Real exchange rates are based on the wholesale prices of manufactures. A rise in the index indicates an appreciation of the lira (loss of competitiveness). Real effective exchange rates vis-à-vis the EC relate only to ERM currencies.

The average unit values of exports, which had begun to slow down in the second half of 1991, remained almost unchanged in the first half of 1992, increasing by only 0.3 per cent over the year. Those of manufactures rose by 0.8 per cent; the negative differential with respect to the rise in domestic producer prices that had emerged at the end of 1991 widened to nearly 2 percentage points owing to fiercer competition in export markets than at home.

Figure 17

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

Sources: Based on IMF and Istat data.

Import prices, though rising slightly during the first half, were 1.4 per cent lower on average than in the first half of 1991. This was due partly to the fall of 12 per cent in the lira price of imported crude, which almost precisely reflected the decline in the dollar price from the high levels that had persisted after the conclusion of the Gulf crisis (Figure 17). Similarly, the world market prices of other raw materials rose but were nonetheless 3 per cent lower on average than in the first half of 1991. The foreign currency prices of imported manufactures remained virtually stationary compared with a year earlier; but their lira prices rose by 0.5 per cent owing to the slight fall in the nominal value of the lira.

The year-on-year improvement in the trade balance on a customs basis in July and August was due less to the growth in exports, which was only slightly higher than the average for the first half (4.9 per cent, compared with 3.9 per cent), than to the 2.7 per cent fall in imports, which contrasted with the brisk 5.1 per cent average increase in the first half. Unadjusted data also show a sharp drop in the value of imports (–6.4 per cent compared with May and June), reflecting a further weakening of demand and production.

In the first eight months of the year the trade deficit was around 600 billion lire less than a year earlier as a result of the narrowing of the energy deficit, which was only partly offset by the decline in the non-energy surplus (Table 9). The deterioration in the non-energy balance was attributable entirely to an increase of 3.4 trillion lire in the deficit on transport equipment, which also expanded in July and August. If transport equipment were excluded, the surplus on the non-energy balance would have risen from 7.2 to 9.5 trillion lire.

Table 8

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)		
	1991		1992	1991		1992	1991		1992
	Year	H1	H1	Year	H1	H1	Year	H1	H1
EC (3)	1.2	1.0	–0.2	2.0	2.6	0.6	–0.8	–1.5	–0.8
Belgium	3.3	2.8	0.9	4.7	4.8	1.8	–1.3	–1.9	–0.9
France	3.3	3.2	0.6	3.2	3.7	1.8	0.1	–0.5	–1.2
Germany	0.7	1.2	–0.9	1.5	2.3	..	–0.8	–1.1	–0.9
Netherlands	2.3	2.0	1.1	3.2	3.0	2.2	–0.8	–1.0	–1.1
United Kingdom	–4.5	–7.0	–1.2	–1.9	–1.4	–1.9	–2.7	–5.6	0.8
Spain	0.5	–0.5	0.9	2.0	2.6	0.8	–1.5	–3.0	0.1
Canada	–0.6	4.5	6.0	4.7	4.2	3.4	–5.0	0.4	2.5
Japan	–8.2	–6.4	–2.6	1.9	1.9	2.7	–9.9	–8.1	–5.2
United States	–0.4	4.2	1.8	3.0	1.7	2.1	–3.3	2.5	–0.4
Switzerland	3.0	0.3	7.1	3.2	4.2	1.6	–0.2	–3.7	5.4
Total (4)	**0.6**	**0.9**	**0.4**	**2.2**	**2.5**	**1.1**	**–1.5**	**–1.5**	**–0.6**

Sources: Based on OECD, IMF and Istat data.

(1) Producer prices of manufactures. – (2) A minus sign indicates a depreciation of the lira (gain in competitiveness in the case of the real exchange rate). – (3) Excluding Greece and Portugal. – (4) The total also includes Austria and Sweden.

Table 9

Merchandise trade by product group (January-August)

(cif-fob; *billions of lire*)

	Exports		Imports		Balance	
	1991	1992	1991	1992	1991	1992
Agricultural, forestry and fishery products	3,868	3,835	10,343	9,910	–6,475	–6,075
Fuel and power products	2,977	3,106	17,623	15,975	–14,646	–12,869
Ferrous and non-ferrous ores and metals	5,963	5,996	12,709	12,723	–6,746	–6,727
Non-metallic minerals and mineral products ...	5,702	5,917	2,886	2,982	2,816	2,935
Chemical products	10,195	11,293	18,242	19,220	–8,047	–7,927
Metal products and machinery	46,001	47,788	33,242	33,777	12,759	14,011
Transport equipment	14,666	14,525	18,424	21,628	–3,758	–7,103
Food, beverages and tobacco products	5,492	6,514	11,529	12,306	–6,037	–5,792
Textiles, leather products and clothing	24,554	25,250	9,660	10,432	14,894	14,818
Other	16,284	17,118	12,156	12,903	4,128	4,215
Total ...	**135,702**	**141,342**	**146,814**	**151,856**	**–11,112**	**–10,514**

Source: Istat.

The geographical breakdown of Italian trade in the first seven months of the year reveals a large increase of 3.7 trillion lire in the deficit with the EC countries (Figure 18); trade with Germany accounted for roughly two thirds of the deterioration, as Italian exports fell by 1.5 per cent while imports rose by 7.9 per cent. The sharp increase in exports to the former Soviet Union and Eastern Europe, coupled with virtual stagnation in imports from these countries, caused the trade deficit with those areas to contract from 1.9 to 0.7 trillion lire (Table 10).

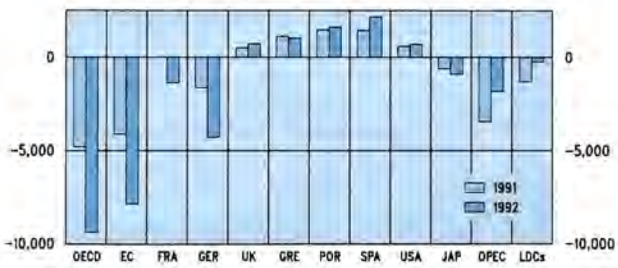
The overall deficit on invisibles increased by 1.9 trillion lire in the first half of the year.

Net interest payments exceeded 10 trillion lire, 800 billion more than in the first half of 1991, owing partly to the growth in net foreign debt, which stood at 150 trillion lire in December 1991 (excluding the central bank's gold reserves) and increased by an amount approximately equal to the current account deficit (more than 18 trillion, net of valuation adjustments), thus inflating net interest payments. An additional factor was the widening of the interest rate differential between the lira and the leading currencies, which increased the discrepancy between yields on Italy's external liabilities, which are mainly denominated in lire, and interest payments on its external assets denominated in foreign currencies.

Figure 18

Merchandise trade balances with selected countries and areas

(*January-July; billions of lire*, cif-fob)



Source: Istat.

Table 10

Merchandise trade by country and area (January-July)
(cif-fob; amounts in billions of lire)

	Export				Imports				Balance	
	Value		Percentage change	Percentage of total 1992	Value		Percentage change	Percentage of total 1992	Value	
	1991	1992			1991	1992			1991	1992
OECD	**99,614**	**100,738**	**1.1**	**77.8**	**104,395**	**110,101**	**5.5**	**77.7**	**–4,781**	**–9,363**
EC	74,300	75,622	1.8	58.4	78,404	83,462	6.5	58.9	–4,104	–7,840
Belgium-Luxembourg	4,276	4,436	3.7	3.4	6,666	6,851	2.8	4.8	–2,390	–2,415
Denmark	960	1,003	4.5	0.8	1,279	1,348	5.4	0.9	–319	–345
France	19,467	19,219	–1.3	14.8	19,448	20,585	5.8	14.5	19	–1,366
Germany	26,670	26,269	–1.5	20.3	28,294	30,532	7.9	21.5	–1,624	–4,263
Greece	2,194	2,302	4.9	1.8	1,070	1,271	18.8	0.9	1,124	1,031
Ireland	363	394	8.5	0.3	881	1,063	20.7	0.8	–518	–669
Netherlands	3,884	4,042	4.1	3.1	7,685	8,352	8.7	5.9	–3,801	–4,310
Portugal	1,966	2,138	8.7	1.7	507	526	3.7	0.4	1,459	1,612
Spain	6,358	7,081	11.4	5.5	4,918	4,922	0.1	3.5	1,440	2,159
United Kingdom	8,162	8,738	7.1	6.7	7,656	8,012	4.6	5.7	506	726
Switzerland	5,447	5,213	–4.3	4.0	6,054	6,197	2.4	4.4	–607	–984
Other European countries (1)	6,984	6,974	–0.1	5.4	6,983	7,096	1.6	5.0	1	–122
Other OECD countries (2)	12,883	12,929	0.4	10.0	12,954	13,346	3.0	9.4	–71	–417
of which: Canada	*953*	*956*	*0.3*	*0.7*	*997*	*1,048*	*5.1*	*0.7*	*–44*	*–92*
Japan	*2,795*	*2,485*	*–11.1*	*1.9*	*3,410*	*3,397*	*–0.4*	*2.4*	*–615*	*–912*
United States	*8,319*	*8,758*	*5.3*	*6.8*	*7,727*	*8,051*	*4.2*	*5.7*	*592*	*707*
Eastern European countries (3)	**3,230**	**4,596**	**42.3**	**3.5**	**5,153**	**5,346**	**3.7**	**3.8**	**–1,923**	**–750**
of which: ex-USSR	*1,440*	*2,153*	*49.5*	*1.7*	*3,332*	*2,878*	*–13.6*	*2.0*	*–1,892*	*–725*
OPEC countries (4)	**5,646**	**6,709**	**18.8**	**5.2**	**9,089**	**8,523**	**–6.2**	**6.0**	**–3,443**	**–1,814**
Other	**15,699**	**17,423**	**11.0**	**13.5**	**17,003**	**17,654**	**3.8**	**12.5**	**–1,304**	**–231**
of which: China	*829*	*937*	*13.0*	*0.7*	*1,646*	*2,042*	*24.0*	*1.4*	*–817*	*–1,105*
Total	**124,189**	**129,466**	**4.2**	**100**	**135,640**	**141.624**	**4.4**	**100**	**–11,451**	**–12,158**

Source: Based on Istat data.
(1) Austria, Finland, Iceland, Norway, Sweden and Turkey. – (2) Australia, Canada, Japan, New Zealand and the United States. – (3) Albania, Bulgaria, Czechoslovakia, Hungary, Poland, Romania, the former USSR and, until September 1990, the former GDR. – (4) Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela.

Figure 19

Real effective exchange rate of the lira: international competitiveness of Italian tourist services (1)
(indices, 1985=100)

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

The surplus on foreign travel diminished by almost 1 trillion lire: expenditure by foreign visitors in Italy rose from 10.3 to 11.4 trillion, but spending by Italians traveling abroad increased by twice as much to 7.4 trillion lire. In real terms, receipts rose by 5 per cent and outflows by 30 per cent. The large growth in outflows accentuated the rising trend of the last three years, disregarding the surge recorded in 1990 when the new system of data collection was introduced. The real rise in receipts was accompanied by a slight decrease in the number of foreigners entering Italy. The small discrepancy between the two indicators corroborated other considerable evidence of a sluggish start to the tourist season. The disappointing results for the first half were partly attributable to the further loss of around 1 per cent in the competitiveness of Italian tourist services (for both foreign and Italian travelers), which compounded the effect of the deterioration recorded in the second half of 1991.

The deficit on transfer payments fell slightly in the first half compared with a year earlier, diminishing from 3.65 to 3.35 trillion lire. An increase in the deficit on private-sector transfers, which reflected both the uninterrupted decline in Italian emigrants' remittances and the slow growth in remittances abroad by foreigners working in Italy, was more than offset by a decrease of almost 500 billion lire in the deficit on official transfers. The latter was largely due to a decline in net transfers to the EC from 1.8 to 1.1 trillion lire owing to a contraction in VAT payments.

Capital movements and the exchange rate of the lira

In the first half of 1992 there were net capital inflows of 4.4 trillion lire (including errors and omissions), 16.5 trillion less than a year earlier (Table 11). The decrease of 14 trillion in the official reserves was therefore less than the deficit on the current account of the balance of payments.

The contraction in net capital inflows reflected the progressive fading of the exceptional boost to inflows of foreign capital as a result of the lira's entry to the narrow EMS fluctuation band and the completion of foreign exchange liberalization in 1990; this had been accompanied by significant though smaller outflows of Italian capital, at least until early 1991. However, the half-yearly figure conceals a more sudden change in the pattern of capital inflows and outflows. The trends described above continued broadly unchanged until May, though with some diminution of inflows initiated by foreigners and an intensification of outflows of Italian capital, but from June onwards the speculative pressure on the lira generated by the Danish referendum radically changed the picture of capital movements.

According to settlements data, net outward investment and lending totaled 36 trillion lire between January and May, compared with 23.4 trillion a year earlier. The particularly large net outflow of 32.2 trillion lire on account of portfolio investment was slightly more than the figure for the entire previous year.

At the same time, net inward investment and lending gave rise to inflows of 14.5 trillion lire in the first five months of the year, compared with 39.5 trillion in the same period of 1991. As the decline in net investment amounted to 9.5 trillion lire, here too the larger part of the overall contraction was due to portfolio operations, owing partly to the absence of foreign issues of securities by the Italian Republic, which had generated net receipts of 5 trillion lire in 1991.

Table 11

Net capital movements
(billions of lire)

	1991			1992 (1)
	Year	H1	H2	H1
Foreign investment in Italy	26,306	14,881	11,425	7,615
Italian investment abroad	–39,878	–24,211	–15,667	–40,381
of which: portfolio	*–30,789*	*–20,198*	*–10,591*	*–36,496*
Foreign loans	13,409	19,129	–5,720	7,360
Italian loans	–7,671	–2,934	–4,737	–2,784
Trade credits, other items and errors and omissions	–13,880	–5,704	–8,176	–9,023
Non-bank capital flows and errors and omissions	–21,714	1,161	–22,875	–37,213
Bank capital flows (2)	39,369	19,809	19,560	41,640
Total	**17,655**	**20,970**	**–3,315**	**4,427**
Memorandum item:				
Change in official reserves (3)	8,571	–5,654	14,225	14,081

(1) Provisional or partly estimated. – (2) Via resident banking institutions. – (3) Net of exchange-rate adjustments and the revalutation of gold. A minus sign indicates an increase in reserves.

Net inflows of loan capital came to 9.2 trillion lire, 15.4 trillion less than a year earlier, when the reserve requirement on resident banks' net fund-raising abroad in foreign currencies had prompted banks to channel a large proportion of domestic lending via their foreign branches, giving rise to operations that were recorded in the balance of payments as foreign loans. In the latter part of 1991, after the removal of the reserve requirement, there were net outflows of foreign loans amounting to 11.2 trillion lire, which confirms the effect that the change in regulations had on net flows. Overall, movements of non-bank capital gave rise to net outflows averaging 4.3 trillion lire a month between January and May.

Over the same period, net inflows of capital via the banking system were substantial – 35.2 trillion lire, compared with 8.8 trillion a year earlier, when their growth had been curbed by the reserve requirement mentioned above. Almost the entire inflow (33.8 trillion lire in foreign currency) was initiated by banks, whose net foreign debtor position rose to 111.8 trillion at the end of May. The increase in foreign currency fund-raising was matched by greater domestic lending in foreign currency; thanks to this and to forward covering operations, the banks' foreign exchange position barely changed.

During the first five months of 1992 the lira depreciated slightly in nominal effective terms, and only marginally more against EC currencies. Indeed, against the Deutschemark the Italian currency appreciated slightly, approaching an exchange rate of 750 lire to the mark. Against the dollar it showed a tendency to depreciate during the middle months of the period under consideration, but in May it returned to just under 1,200 lire, close to the level recorded at the beginning of the year.

Turnover on the Italian foreign exchange market

Italy has been a full participant in the worldwide expansion and integration of foreign exchange markets in recent years, especially following the complete removal of Italian exchange controls in 1990. Regular surveys of turnover on foreign exchange markets are not available, but special studies were conducted in 26 countries in April 1992 at the initiative of the BIS, replicating a similar project carried out in April 1989. With appropriate precautions, the two surveys can be compared.

The Italian survey covers 23 banks, 9 of which are branches of foreign banks. The sample banks account for about 80 per cent of the total volume of foreign exchange transactions in Italy. The data cover all funds transfers, currency conversions and other foreign currency operations, regardless of whether they are economic transactions, financial transactions or pure intermediation; consequently, they are not comparable with balance-of-payments flows.

The gross turnover of the sample banks in April 1992 was $362 billion, as against $220 billion in April 1989. Total Italian foreign exchange turnover in the two months can thus be estimated pro rata at respectively $460 and $300 billion. Adjusting for the number of business days in the month, this gives an average daily turnover of $22 billion in April 1992, compared with $15 billion three years earlier.

Spot transactions worth $259 billion accounted for 72 per cent of the total turnover of the sample banks, while $101 billion changed hands on the forward market, where the share of total turnover accordingly rose from 16 per cent to 28 per cent.

Innovative instruments such as currency futures and options accounted for a modest $1.4 billion.

Transactions were effected mainly with non-residents, who accounted for about two thirds of total turnover; virtually all this business was with banks. The 33 per cent of transactions with Italian residents was less concentrated, with 70 per cent having been done with banks and the rest with customers. Almost all the transactions with residents were conducted on the spot market, while those with non-residents were more evenly divided between spot and forward. The largest increases compared with the earlier survey were in spot transactions with resident banks and forward transactions with non-resident banks.

The bulk of the turnover consisted of transactions involving the lira, which amounted to $307 billion or 85 per cent of the total, while operations involving two foreign currencies amounted to only $55 billion. Compared with April 1989, lira transactions more than doubled, while those involving only foreign currencies contracted in both relative and absolute terms.

As to the currency distribution, the dollar retained its predominant position on the forward market, while the Deutschemark gained in importance on the spot market, where its share is now on a par with that of the dollar (40 per cent).

In June the result of the Danish referendum led to tensions within the EMS, which were exacerbated for the lira by growing uncertainty about the timing and intensity of action to reduce the budget deficit. The official reserves decreased by 7.8 trillion lire during the month, whereas in the preceding months the losses had averaged just over 1.3 trillion a month.

Net outflows of Italian capital increased much more rapidly than in the early months of the year to amount to 6.5 trillion lire in June and 12.2 trillion in July. In August outflows were limited to 5.2 trillion lire by the reduction in activity during the holiday period and the effect on confidence of the agreement on labour costs.

Moreover, between June and August average monthly net inflows of foreign capital fell by a half to 1.6 trillion lire. The decline in net portfolio investment was particularly pronounced, owing mainly to a sharp contraction in new operations, presumably on account of heightened uncertainty.

The less favourable assessment of the investment opportunities offered by the Italian market was due partly to the downgrading of government or government-guaranteed securities in foreign currency by Moody's agency and uncertainty associated with the liquidation of EFIM and the settlement of its foreign liabilities. Meanwhile, inflows of bank capital continued, although on a smaller scale than in previous months, thereby again demonstrating the willingness of customers to accept exchange risks at a time when interest rate differentials in favour of the lira had increased substantially.

The deficit on "Current payments in foreign currency, and errors and omissions" also increased, presumably owing to financial transactions not immediately identified by the settlements recording system and hence allocated to this heading as a residual item. In July and August the official reserves declined by more than 15 trillion lire, with the bulk of the loss being concentrated in July. The lira began to depreciate within the fluctuation band, reaching an exchange rate of 764 lire to the mark in the fourth week of August.

The speculative attack on the lira intensified from the end of August onwards, inflamed partly by growing uncertainty about the outcome of the French referendum, the date of which was rapidly approaching. The lira moved to the lower limit of the fluctuation band, corresponding to a rate of 765.4 lire to the mark, thereby triggering the very short-term financing facility of the ERM. Intervention in defence of the lira by the Bank of Italy itself was complemented by intervention of considerable magnitude by the Bundesbank and, on a smaller scale, by the National Bank of Belgium.

On 13 September the heightening of tensions within the EMS prompted the Italian and German authorities to propose a realignment of central rates, combined with an undertaking on the part of the Bundesbank to reduce its official interest rates. Following the decision by the other countries not to alter the central rates of their currencies against the mark, the realignment finally came down to no more than a devaluation of the lira by 7 per cent. In view of the limited nature of the realignment, the reduction in German interest rates was modest. The exchange rate tensions did not abate in the days that followed, but focused on sterling and other currencies, including again the lira. On 17 September intervention to support the lira was suspended, and the currency began to float.

The effects of the crisis in September are evident in a decline of 30 trillion lire in the official reserves. Provisional settlements data on capital movements in that month, which indicate a net outflow of more than 27.6 trillion lire, probably reflect movements in opposite directions in the first and second halves of the month; in particular, non-bank operations gave rise to modest net outflows of just over 2 trillion lire in the month as a whole.

After growing steadily from 159.4 trillion lire in January to 193.1 trillion in August, the banking system's net foreign debt declined to 190.7 trillion in September at current exchange rates. After adjustment for the effects of exchange rate changes, provisional data suggest that there were net outflows of bank capital of 21.2 trillion in foreign currency and 4.4 trillion in lire. The seasonal growth in domestic fund-raising in lire recorded in September was less than a year earlier, but it nevertheless made it easier for banks to reduce their net external liabilities denominated in foreign currency; it was accompanied by an increase of 6.5 trillion lire in banks' foreign currency liabilities towards residents.

The banks' net spot position in foreign currencies was almost entirely covered by an increase in forward foreign exchange commitments, so that the banking system's overall foreign exchange position, spot and forward, remained broadly in balance. The large increase in the forward discount on the lira, especially in the first half of September, raised the cost of covering foreign currency debt, presumably therefore discouraging the use of this instrument to hedge exchange risks and making it more advantageous to reduce net spot foreign currency liabilities.

The exchange rate of the lira against the mark settled at 870-880 lire in the second ten days of October, after having occasionally exceeded 950 in the first ten days of the month. The Government re-affirmed its intention to re-enter the Exchange Rate Mechanism as soon as possible.

Public finances

In the first nine months of the year the state sector borrowing requirement, net of settlements of past debts, ammounted to 111 trillion lire, compared with 103.9 trillion in the corresponding period in 1991 (Table 12). Most of the effects of the corrective measures adopted during the year will be felt in the last quarter, accentuating the pattern observed in 1991, so that the annual borrowing requirement should be only a little larger than last year's (152.2 trillion) and in line with the 155 trillion forecast published at the end of September in the Government's Forecasting and Planning Report for 1993. This outcome assumes that the sale of assets will achieve the latest objective, set at 7 trillion lire in July.

Table 12

State sector borrowing requirement

(billions of lire)

	1990	1991	1992 (1)
	including settlements of past debts		
First half	47,804	58,028	73,078
January-September	83,439	103,943	111,059
	excluding settlements of past debts		
First half	47,659	58,023	73,050
January-September	83,225	103,908	111,028

(1) Provisional.

Budgetary policy has again been characterized by the introduction of corrective measures during the year (albeit not sufficient to achieve the objectives set in the Finance Law), the consequent revision of these objectives and subsequent difficulty in achieving the new ones.

The Government's Forecasting and Planning Report for 1992, submitted to Parliament in September 1991, set a target of 127.8 trillion lire for the annual borrowing requirement. Accordingly, the Government submitted measures designed to reduce the deficit by 61.5 trillion lire (including 15 trillion of receipts from privatizations and 4.2 trillion of savings on interest payments). The package was approved by Parliament with amendments that slightly reduced their impact. In January of this year these measures were supplemented by a Directive issued by the Prime Minister designed primarily to curb expenditure commitments by government departments and lending by the Deposits and Loans Fund in the first half of the year.

The Treasury Minister's Report to Parliament in March revealed a deterioration in the public finances, owing primarily to the downward revision of the forecast rate of GDP growth, from 2.7 to 1.8 per cent, and the higher than expected yields on government securities. The original forecast of interest payments had assumed a sizable reduction in interest rates in the last quarter of 1991 and during 1992; the revised estimates took account of the rise in yields between September and March (the average gross yield on Treasury bills rose by 0.6 percentage points) and of the larger borrowing requirement recorded in 1991 and expected in 1992; the interest burden was accordingly forecast to rise from 154.2 to 162.5 trillion lire. On the basis of the estimates of tax and social security contribution receipts, the Treasury Minister's Report indicated an annual borrowing requirement of between 150 and 160 trillion lire, assuming that the privatization programme was implemented in full.

The borrowing requirement continued to run at a high level in the following months, boosted by the rapid increase in nearly all the main expenditure items. The revision of the annual estimates carried out in March proved to have been insufficient, mainly because interest rates rose instead of falling as forecast. At the end of May the Government approved a second Directive designed to suspend new expenditure commitments by government departments and autonomous government agencies until 30 September 1992 and extend the provisions of the first Directive until the same date. The Annual Report of the Bank of Italy, published on 30 May, drew attention to the seriousness of the problems facing the country and indicated, on the basis of a simulation that took account of the trends discernible both within Italy and abroad, the scale of the budgetary and incomes policy measures that needed to be rapidly introduced. On 11 July the new Government issued Decree Law no. 333 with additional budgetary measures expected to increase revenue by 16 trillion lire and reduce expenditure by 7 trillion. The forecast of privatization receipts was reduced to 7 trillion lire, compared with the original estimate of 15 trillion in the Finance Law. At the same time the Government submitted a bill for an enabling law to reform the social security system, the health service, public employment and local authority finances.

At the end of July the Economic and Financial Planning Document for 1993-95 was published after its preparation had been delayed until the new Government took office following the elections held in April. The Document, which took account of the measures just introduced, estimated the state sector borrowing requirement for 1992 at 150 trillion lire, with a further increase to 168.3 trillion in interest payments. The Document nonetheless warned that the assumptions regarding economic growth and interest rates could prove overoptimistic.

From August on the Executive turned its attention to preparing the budget for 1993. The foreign exchange crisis and difficulty in selling government securities led the Government to introduce some of the budget measures in a Decree Law issued in the middle of September, so that they will also reduce this year's borrowing requirement by around 1 trillion lire. At the end of September the Forecasting and Planning Report for 1993, submitted together with the Finance Bill, indicated a borrowing requirement of 155 trillion lire for 1992.

Achieving this figure would bring the ratio of the borrowing requirement to GDP down from 10.7 to 10.2 per cent (Table 13). For the first time since the mid-sixties there would be a budget surplus net of interest payments, of just over 1 per cent of GDP. The overshoot compared with the original targets for the year would amount to 27 trillion lire for the total borrowing requirement and to 10 trillion for that net of interest payments; compared with the revised targets published last July in the Economic and Financial Planning Document, the overshoot would be 5 and 2 trillion respectively.

Table 13

State sector balances

(billions of lire and percentages)

	1990	1991	1992 (1)
Borrowing requirement, net of settlements of past debts .	140,431	152,249	155,000
as a % of GDP	(10.7)	(10.7)	(10.2)
Settlements made in cash ..	249	73	100
Settlements made in securities	4,582	–	–
Total borrowing requirement	145,262	152,322	155,100
as a % of GDP	(11.1)	(10.7)	(10.2)
Borrowing requirement, net of interest payments and settlements of past debts .	14,513	7,330	–16,300
as a % of GDP	(1.1)	(0.5)	(–1.1)
Current account deficit	87,816	101,201	103,430
as a % of GDP	(6.7)	(7.1)	(6.8)

(1) Estimates published in the Forecasting and Planning Report for 1993.

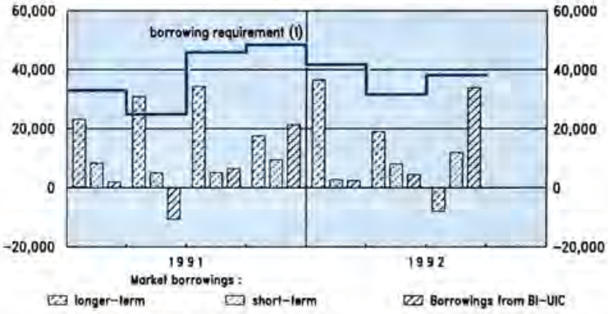
The adjustment produced by the budget and the supplementary measures adopted in July is estimated to amount to just under 5 per cent of GDP, compared with around 3.4 per cent in 1991. The figure includes 0.5 percentage points in connection with privatizations and 0.3 points from savings in interest payments and is in line with the results forecast when the measures were introduced. However, excise duties have not been revised in line with inflation, though the additional revenue expected, about 0.3 per cent of GDP, was included in the official estimate of the budget on a current programmes basis. The resulting revenue shortfall was to be offset in part by the tax linked to the exclusion of buildings from the assets of sole traders, but receipts of this tax failed to live up to expectations.

Fiscal policy has had to offset the highly expansionary trend of the budget on a current programmes basis, to which several factors contributed: the lapsing of the one-off measures that were adopted in 1991 and yielded about 1 per cent of GDP; the increase of nearly 2 percentage points in interest payments in relation to GDP; and the continued weakness of economic activity. Substantial recourse has again been made to special measures, which are expected to yield around 2.3 per cent of GDP (more than 35 trillion lire) when the planned privatizations are included. The revenue deriving from measures provided for in the Finance Law, including the compulsory revaluation of corporate property (more than 6 trillion) and the general condonation scheme (more than 11.5 trillion), has been supplemented by around 11 trillion from the special taxes introduced in July on deposits and buildings. As in previous years, the revenue-raising measures outweighed those reducing expenditure: according to the estimates of the outturn for 1992 published in the Forecasting and Planning Report for 1993, the ratio of fiscal receipts to GDP will rise by 1.3 percentage points, compared with 0.8 points in 1991; the ratio of expenditure will also rise, by 1.5 points, of which 1.3 are attributable to interest payments.

In the first nine months a slightly larger proportion of the borrowing requirement was financed through sales of securities than in the corresponding period of the previous year (87.7 per cent, as against 86.9 per cent). The share financed with short-term securities (Treasury bills in lire and ecus) rose from 7.9 to 18.2 per cent as a result of the difficulties encountered in selling medium and long-term paper during the summer. These difficulties are also reflected in the Treasury's drawings on its current account with the Bank of Italy, which rose from 2.2 to 11.9 per cent of the borrowing requirement and from 2.3 to 13.2 trillion lire; at the end of September the margin available had fallen to 3.3 trillion lire. Net foreign fund-raising turned negative, with an outflow of 1.7 trillion, compared with an inflow of 5.2 trillion in the same period of 1991.

Figure 20

State sector borrowing requirement and its financing
(billions of lire)



(1) Gross of settlements of past debts.

The state sector debt amounted to more than 1,570 trillion lire at the end of September; the part held by the Bank of Italy stood at 210 trillion, an increase of 43 trillion from the beginning of the year.

State sector revenue and expenditure

Central government tax revenue totaled just under 300 trillion lire in the first nine months of the year, an increase of 14.5 per cent compared with the corresponding period in 1991. The growth in receipts was about 5 percentage points larger than in 1991, with direct taxes contributing about two thirds of the total (Table 14).

A sizable part of the increase in tax revenue was the result of the one-off measures introduced in the 1992 budget and the July package. Excluding these effects and those produced by leads and lags in the payment of indirect taxes, the increase in tax revenue drops to 11 per cent.

Table 14

State sector tax revenues (1)

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

	January-June 1991	January-June 1992 (2)	1992/1991	January-September 1991	January-September 1992 (2)	1992/1991
Direct taxes						
Personal income tax	61,196	66,832	9.2	85,666	94,817	10.7
of which: withholding tax on public sector wages and salaries	*10,088*	*10,795*	*7.0*	*15,743*	*17,733*	*12.6*
withholding tax on pensions and private sector earned income	*33,245*	*37,372*	*12.4*	*49,417*	*55,112*	*11.5*
self-assessed balances	*6,359*	*6,186*	*–2.7*	*6,380*	*6,375*	*–0.1*
self-assessed instalments	*5,030*	*5,768*	*14.7*	*5,034*	*5,890*	*17.0*
Corporate income tax	7,010	6,999	–0.2	10,654	11,198	5.1
of which: self-assessed balances	*3,205*	*2,952*	*–7.9*	*5,120*	*4,895*	*–4.4*
self-assesed instalments	*3,551*	*3,810*	*7.3*	*5,198*	*5,986*	*15.2*
Local income tax	9,300	7,487	–19.5	11,776	10,346	–12.1
of which: personal income tax	*4,033*	*2,828*	*–29.9*	*4,051*	*2,900*	*–28.4*
self-assessed balances	*2,499*	*1,361*	*–45.5*	*2,515*	*1,421*	*–43.5*
self-assessed instalments	*1,534*	*1,467*	*–4.4*	*1,536*	*1,479*	*–3.7*
corporate income tax	*4,894*	*4,318*	*–11.8*	*7,223*	*6,972*	*–3.5*
self-assessed balances	*2,146*	*1,724*	*–19.7*	*3,324*	*2,933*	*–11.8*
self-assessed instalments	*2,748*	*2,594*	*–5.6*	*3,899*	*4,039*	*3.6*
Withholding tax on interest income	8,834	11,057	25.2	19,622	22,740	15.9
of which: in respect of bank deposits	*2,307*	*2,056*	*–10.9*	*7,839*	*7,823*	*–0.2*
in respect of government securities	*4,331*	*6,427*	*48.4*	*8,288*	*10,882*	*31.3*
Withholding tax on dividends	1,433	1,336	–6.8	2,320	2,215	–4.5
Other (3)	1,451	7,166	393.9	2,391	18,314	666.0
Total	**89,224**	**100,877**	**13.1**	**132,429**	**159,630**	**20.5**
Indirect taxes						
VAT (4)	47,100	46,940	–0.3	69,017	70,062	1.5
Other business taxes (5)	14,486	17,014	17.5	20,354	24,673	21.2
Exercise taxes on oil products	15,589	18,952	21.6	24,059	27,345	13.7
Other excise and sales taxes (5)	5,291	6,321	19.5	8,165	9,594	17.5
Tobacco taxes	3,092	3,389	9.6	4,582	5,166	12.7
Gaming taxes	1,600	1,621	1.3	2,354	2,432	3.3
Other	45	48	6.7	77	78	1.3
Total	**87,203**	**94,285**	**8.1**	**128,608**	**139,350**	**8.4**
Total tax revenues	**176,427**	**195,162**	**10.6**	**261,037**	**298,980**	**14.5**

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) Includes receipts of inheritance taxes, which are recorded among indirect taxes in the accounts of the state sector. The figure for 1992 includes some newly introduced special taxes (the tax condonation scheme, the tax on deposit and current accounts, the special tax on buildings, the tax on the compulsory revaluation of corporate assets and that on the exclusion of buildings from the accounts of sole traders). – (4) Includes the receipt used to settle tax credits and those accruing to the EC. – (5) Includes the proceeds of surtaxes on electricity consumption (levied by the tax authorities for disbursement to local authorities).

Nearly all the special measures involved direct taxes. Among those adopted at the end of 1991, the revenue produced by the compulsory revaluation of corporate property was slightly less than had been expected (the part payable this year amounted to 6.2 trillion, compared with a forecast of 6.8 trillion), while the discretionary exclusion of buildings from the assets of sole traders produced only 180 billion, compared with a forecast of 3 trillion. By contrast, the 11.5 trillion produced by the condonation scheme, of which 3 trillion in respect of indirect taxes, was in line with the original forecast of 12 trillion. The exceptional increase in "Other" direct taxes was due to the inclusion in this item of the special taxes imposed in July on bank and PO deposits, which yielded around 4.8 trillion, and that on buildings, which had brought in 1.5 trillion by the middle of October and is forecast to yield 6.4 trillion by the end of the year. The fact that only a small proportion of the total revenue expected from the tax on buildings has been received so far is due to many taxpayers having deferred payment until December because the penalty charged in lieu of interest was set at only 3 per cent.

When the receipts from special taxes are excluded, the rise in direct taxes drops from 20.5 to 8.9 per cent. One of the factors holding back growth was the fact that self-assessed tax receipts were unchanged compared with the first nine months of 1991. While the first instalment for 1992, payable in May, increased by 11 per cent, the balance for 1991 was down by 10 per cent, primarily as a result of a fall in the revenue from local income tax. The decline in the balance paid by individuals and legal persons was respectively 12.4 and 7.3 per cent and was due to changes in the law and the lack of growth in corporate taxable income in 1991. The balance paid by individuals was affected by the instalment rate having been raised from 95 to 98 per cent with effect from 1991. When the payments are recalculated on an accruals basis, the increase in receipts for 1991 was on the order of 7 per cent. The 43.5 per cent fall in the balance of local income tax payments was primarily due to the exemption of businesses with fewer than three employees and was accentuated by the newly introduced right to offset credits and debits between different taxes.

The balances paid by companies were affected by the deterioration in corporate profitability, with taxable income declining by around one percentage point in 1991. The downturn in profits is reflected in the 4.5 per cent fall in the withholding tax on dividends. Corporate income tax receipts nonetheless increased on a cash basis: the 5.1 per cent rise in the first nine months of the year was entirely attributable to the larger receipts of the first instalment, which led to a small rise in the latter's ratio to the tax liability for the previous year.

The growth in direct taxes was also due to the 31.3 per cent increase in the yield of the flat-rate withholding tax on income from government securities, which expanded with the debt. The fact that bank deposit rates fell while bank deposits themselves grew caused the tax on income from this source to remain virtually unchanged.

The tax levied at source on wages, salaries and pensions increased by 11.8 per cent. Receipts were boosted by the full application of new wage agreements in the private sector and, above all, by the one percentage point increase introduced by the Finance Law for 1992 in the personal tax rate on all the income brackets except the first and second

Indirect tax receipts increased by 8.4 per cent. Excluding the nearly 3 trillion lire raised by the condonation scheme and adjusting for the payment of some taxes having been brought forward to 1991 results in the increase exceeding 13 per cent.

On this basis, excise and sales taxes recorded the largest increase (17.5 per cent), with the taxes on methane rising by 34 per cent, partly as a result of the higher rates introduced in the summer of 1991. The tax on oil products increased by 13.7 per cent. Adjusting for the longer period allowed for payment in 1991 causes the increase to drop to around 7 per cent, in line with the expansion of oil consumption.

The corrective measures adopted in July 1992

Decree Law no. 333 of 11 July 1992 (ratified with amendments by Law no. 359 of 8 August 1992) aimed to reduce the state sector borrowing requirement for this year by 30 trillion lire. Specifically, the measures are planned to generate 16 trillion of additional revenue and 7 trillion of expenditure savings, together with an estimated 7 trillion from privatizations. Compared with the adjustment originally provided for in the 1992 budget, the July measures only result in an additional reduction in the borrowing requirement of 15 trillion since the budget had envisaged that the proceeds of privatizations would amount to 15 trillion. Most of the measures on the revenue side were of a one-off nature.

The revenue measures

Tax revenue. – *The measures included a one-off tax at the rate of 6 per mille on bank and post office deposits, deposits with special credit institutions and certificates of deposit with reference to the balances on 9 July 1992. The tax also applied to amounts in foreign currency independently of whether the holder was an Italian resident. Post office savings certificates and interbank deposits were excluded from the scope of the tax. The tax was collected by the credit institutions and the post office authorities and paid in September. Taking account of delays in recording receipts, the tax should yield the expected 5.1 trillion lire.*

A special tax on residential and commercial buildings was also introduced at the rate of 3 per mille of the value obtained on the basis of the revised ratable values (the rate was reduced to 2 per mille for taxpayers' habitual homes, which also benefited from a 50 million lira deduction from the rated value). Land and buildings related to infrastructure were exempted. The tax was to be paid by the end of September, with the possibility of paying by 15 December with a surcharge of 3 per cent. At the end of September receipts totaled 800 billion lire, so that most taxpayers appear to have chosen to postpone payment.

The Decree also introduced a new condonation scheme for property incomes of which all or part had not been declared in the personal and local income tax returns for the years prior to 1992. The scheme requires taxpayers to submit supplementary returns and to pay an amount related to the number of years since the income was first omitted. With the aim of reducing evasion in this field, the authorities have arranged to obtain information on buildings supplied with electricity and their owners. The information is being collected with the cooperation of the electricity utilities and will be compared with other data in the computerized records of the tax authorities.

Stamp duties and registration fees were increased by around 50 per cent and some government concession charges doubled with effect from the beginning of the year. The new charges were set in a Ministerial Decree of 20 August 1992 and included those for driving licences, passports, gun permits, registration with professional bodies, state property concessions and the issue of patents.

The concession charge payable by SIP to the Ministry of Posts and Telecommunications for the supply of telephone services was raised by 0.5 percentage points and a condonation scheme introduced for unpaid cable radio rental charges. The Decree also provides tax relief for certain categories of firms. In particular, half the increase in firms' entrepreneurial income will be excluded from their tax bases in the three years 1992-94 provided that the annual increase in such income exceeds 15 per cent and the "innovative" investments implemented during the year exceed the sum of the increase in income and the depreciation charge for the year.

Social security contributions. – *The social security contributions payable by employees were increased by 0.6 per cent starting from July and a further 0.2 point increase will come into effect in January next year (the original Decree provided for the whole increase to take effect in July). The social security contributions payable by the self-employed registered with INPS were increased by a full percentage point.*

The expenditure measures

Pensions. – *The Decree suspended the 1.8 per cent cost-of-living increase in pensions due in November. Subsequently, Decree Law no. 384 of 19 September 1992* *extended this suspension to the end of 1993 and suspended all the other forms of indexation of pensions and annuities.*

Public employment. *– Increases under wage agreements were postponed until 1993 (Decree Law no. 384 subsequently provided for the new agreements to come into force on 1 January 1994 and for an increase of 20,000 lire to be paid for 13 months in 1993). Further restrictions were imposed on the hiring of new staff and incentives and the job-related indemnities paid to some categories of employees were frozen at their 1991 level.*

Other expenditure. *– A 5 per cent cut was imposed on state transfers to provinces and communes, except for those declared to be "heavily damaged", with a cash saving estimated at around 450 billion lire. The block on new expenditure commitments that the Directive of 26 May had imposed on government departments was extended to the whole year. The exclusion from this measure of compulsory spending and of that considered strictly necessary for the functioning of the departments was confirmed. The Decree abrogated all the legislative measures providing for the government to guarantee the exchange risk on new foreign currency loans (with the exception, until 31 December 1993 of loans associated with interventions in the South of Italy). The allocations for some items of the budget of the Ministry of Defence were reduced, the unspent portions of special funds were cancelled from the budget and the spending authorized in connection with the university development programme was reduced.*

In addition, the possibility of invoking price revision clauses in public sector contracts, already considerably restricted in 1986, was abolished.

Reorganization of the ownership of public enterprises

When the Decree was ratified, it was decided to transform IRI, ENI, INA and ENEL immediately into companies limited by shares under private law. The Ministry of the Treasury was made the owner of the capital of the new companies, calculated net of their debt liabilities and divided into shares with a face value of 1,000 lire each. The shareholdings of the Deposits and Loans Fund in several special credit institutions, including Istituto Mobilare Italiano, were also transferred to the Treasury. The Government is required to draw up a plan for the reorganization of the new companies by the end of November, with capital also being raised by way of the sale of individual subsidiaries. A resolution adopted on 12 August 1992 by the Interministerial Committee for Economic Planning provides for the transformation of the State Railways into a company limited by shares. In addition, legislation has been approved providing for the liquidation of EFIM. To start the process of privatization, the Government has announced its intention of shortly selling Credito Italiano of the IRI Group and Nuovo Pignone of the ENI Group.

Effect on the borrowing requirement of the measures provided for by Decree Law no. 333 of 11 July 1992 (ratified with amendments by Law no. 359 of 8 August 1992)
(billions of lire)

	1992
Reduced expenditure	
Wages and salaries	2,300
Pensions	600
Defence	900
Block on spending commitments, reduced transfers to provinces and communes, and other measures	3,000
Subtotal	**6,800**
Increased revenue	
Special tax on buildings	6,400
Special tax on bank and PO deposits	5,100
Indirect taxes	2,700
Property income condonation scheme	1,000
Increase in social security contributions	1,000
Subtotal	**16,200**
Financial transactions	
Privatizations	7,000
Total	**30,000**

Source: *Relazione previsionale e programmatica* per il 1993.

Total VAT revenue increased by 1.5 per cent. When the figure for the first half of 1992 is adjusted to include the roughly 4 trillion lire paid in December 1991 following the introduction of an additional instalment for some categories of taxpayer, the increase amounts to 8 per cent. Excluding the effects of new measures, domestic VAT revenue kept pace with the lively performance of nominal consumption this year. The 9.3 per cent fall in the import component was influenced by the payment of some customs dues having been brought forward to 1991; when the figures are adjusted for the leads and lags in receipts, the import component is found to have increased by 1.2 per cent, which is more than 2 percentage points less than the increase in imports in the nine months ending in August.

State sector outlays in the first half of 1992 amounted to 320.7 trillion lire, an increase of 13.9 per cent on the first half of 1991 (Table 15). Excluding, for the sake of comparability, some items concerning civil servants' imputed social security contributions that do not affect the size of the borrowing requirement results in the increase being just over 13 per cent. The rapid growth in outlays was common to nearly all the main expenditure items. The only items to record slower growth or a contraction were wages and salaries (+4 per cent after excluding the aforementioned imputed amounts), current transfers to enterprises (+1.7 per cent) and loans and advances (-23.5 per cent).

Compared with the first half of 1991, state sector spending on wages and salaries rose by 9.7 per cent. When imputed social security contributions are excluded, the increase is equal to around 4 per cent, broadly in line with the forecast for the year. In the absence of new wage agreements and with the wage rises provided for in the 1988-90 contracts having already produced their full effects in 1991, the increase for most state sector employees was basically due to the carryover effects of the cost-of-living allowances triggered in 1991 (the *scala mobile* indexation mechanism was suspended in 1992).

Interest payments amounted to 77.3 trillion lire, an increase of 15.5 per cent on the first half of 1991. The interest paid on Treasury bills increased by 8.1 per cent and represented 27 per cent of the total; nearly 3 percentage points of the increase were due to the rise in interest rates compared with the first half of 1991. The interest paid on Treasury credit certificates (37 per cent of the total) and Treasury bonds (20 per cent of the total) increased by respectively 3 and 54 per cent, in line with the amounts outstanding.

Table 15

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

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

	1991 H1	1992 H1	1992/1991
Current expenditure	**249,786**	**285,516**	**14.3**
Wages, salaries and pensions	59,176	65,440	10.6
of which: wages and salaries	*44,771*	*49,116*	*9.7*
Goods and services	12,254	14,533	18.6
Current transfers	104,904	121,211	15.5
of which to: social security institutions	*23,974*	*27,951*	*16.6*
regions	*45,747*	*52,835*	*15.5*
communes and provinces	*16,318*	*18,320*	*12.3*
households	*7,291*	*8,389*	*15.1*
enterprises	*6,143*	*6,250*	*1.7*
Net interest payments	*66,942*	*77,344*	*15.5*
Capital expenditure	**23,607**	**27,763**	**17.6**
of which: fixed capital	*8,955*	*11,555*	*29.0*
capital transfers	*14,076*	*15,947*	*13.3*
Financial items	**8,038**	**7,371**	**-8.3**
of which: investments	*1,056*	*1,336*	*26.5*
loans and advances	*6,982*	*5,344*	*-23.5*
Total expenditure	**281,431**	**320,650**	**13.9**

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

Current transfers increased by 15.5 per cent, with the growth in outlays to every sector except enterprises accelerating compared with 1991. In particular, those to communes and provinces rose by 14.6 per cent to 71.2 trillion lire. When transfers on capital account to these local authorities are included, the increase remains large (13.4 per cent).

The rapid growth in the funding required by the social security institutions (16.6 per cent) was due to the increase in pension disbursements having accelerated while the rise in contributions slowed. The increase in pensions was fueled by the indexation mechanisms in force, which produced an increase of more than 8 per cent in their unit value. In addition to the carryover effect of the automatic adjustments made in May and November 1991 on the basis of the target rate of inflation, a large increase of nearly 3 per cent came into force at the beginning of this year to make good the shortfall between the foregoing increases and those calculated at the end of the year on the basis of the actual rate of inflation in 1991. At the same time back payments were made in respect of 1991 amounting to 1.5 per cent of the annual total, compared with a corresponding figure of 1.1 per cent at the beginning of 1991. The start of this year also saw a 0.4 per cent increase in pensions triggered by the rise in real wages and salaries, while in May a 2.6 per cent increase took effect on the basis of the target rate of inflation. Spending was also boosted by Law 59/1991, which provides for pensions to be revalued gradually according to a formula based on the year they became payable, and the increase in the number of pensions.

The growth in contributions was curbed by the reductions in the rates employers are required to pay (1.44 percentage points for industrial firms in the Centre-North and 1.4 points for other firms) and the slowdown in economic activity. The growth in receipts should accelerate in the second half of the year following the rate increases introduced in July for employees and the self-employed.

Purchases of goods and services rose sharply, from 12.3 to 14.5 trillion lire. The rate of increase in disbursements, which is partly due to the provisional recording of payments in suspense accounts, is larger than had been expected for the year as a whole.

As regards expenditure on capital account, direct investment rose from 9 to 11.6 trillion lire. This was entirely due to the increase, from 5.7 to 8.6 trillion, in the disbursements of the autonomous government agencies, especially the State Railways. On the other hand the disbursements of the Southern Italy Development Agency declined from 3.3 to 2.8 trillion. The 13.3 per cent growth in transfers owed much to the 38.1 per cent increase in those to enterprises.

The reduction in financial transactions from 8 to 7.4 trillion lire reflected the decrease in lending by the Deposits and Loans Fund. As a result of the prolongation of restrictions, disbursements by the Fund to communes and provinces continued to decline and amounted to 3.1 trillion, as against 5.2 in the first half of 1990 and and 4.3 trillion in the first half of 1991.

The money and financial markets

Monetary policy

For years the principal point of reference for the Bank of Italy's monetary policy was the stability of the lira around the central rate established by the EMS Exchange Rate Mechanism and adopted by the Government as the basis for anti-inflationary economic policy. Exchange rate discipline was the sheet anchor for consistency between incomes policy, fiscal policy and structural reform. Given the deficit on the current account of the balance of payments, the Bank of Italy had to create monetary conditions that would encourage capital inflows consistent with the chosen exchange rate.

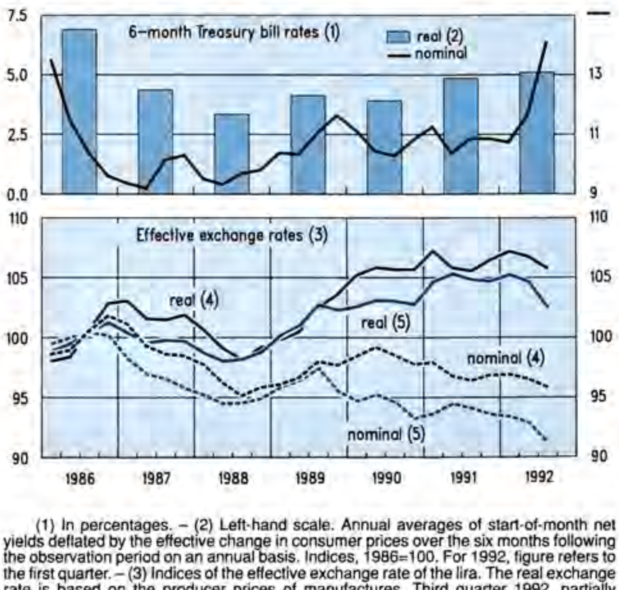
For the first five months of this year tight control of liquidity successfully maintained the stability of the exchange rate. In the months that followed, the difficulties concerning European integration and the uncertainties surrounding the rehabilitation of Italy's public finances accentuated the shift in portfolio composition towards external assets, weakening the lira. In mid-September overwhelming foreign exchange pressures made continued intervention in defence of the central rate impossible.

Monetary conditions were stable until May. In the first quarter the lira remained in the upper part of the EMS fluctuation band, while money market rates were consistently above the discount rate. The real yield on Treasury bills was only slightly higher than the 1991 average (Figure 21). In May, as the Deutschemark strengthened on international markets, the lira began to decline again, slipping into the lower part of the fluctuation band, partly as a result of uncertainty about the domestic political situation and the public finances. The same factors sustained the expansion of the money supply; M2 grew by 8.6 per cent on a seasonally adjusted annual basis in the three months ending in May.

At the beginning of June the negative outcome of the Danish referendum on the Treaty of Maastricht transformed the foreign exchange picture. The impact was felt in nearly all the EMS countries, but with particular force in Italy. An increase in the rate on fixed-term advances from 12.5 to 13 per cent on 4 June and tight control of liquidity induced a rise of about 2 points in interbank rates during the first half of the month (Figure 22). The increase fed through to the government securities market as well; during the month the average net yield on Treasury bills rose by about 70 basis points to 12.2 per cent, while that on long-term paper rose by more than 60 basis points to 11.5 per cent. The state of uncertainty was reflected in an unprecedented widening of the spread between bid and asked prices on the screen-based secondary market in government securities.

Figure 21

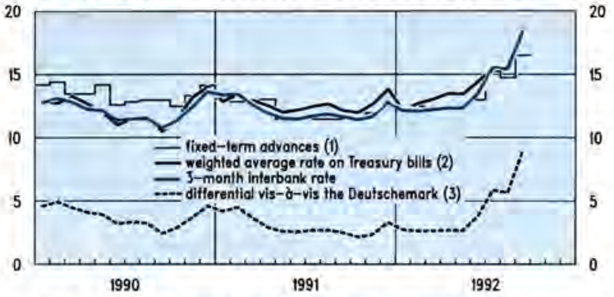
Nominal and real interest rates and exchange rates



(1) In percentages. – (2) Left-hand scale. Annual averages of start-of-month net yields deflated by the effective change in consumer prices over the six months following the observation period on an annual basis. Indices, 1986=100. For 1992, figure refers to the first quarter. – (3) Indices of the effective exchange rate of the lira. The real exchange rate is based on the producer prices of manufactures. Third quarter 1992, partially estimated. A rise in the indices reflects an appreciation of the lira and a loss of competitiveness for the real exchange rate. – (4) Vis-à-vis the currencies of Italy's 14 leadind trading partners. – (5) Vis-à-vis ERM currencies.

Figure 22

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



(1) Weighted average of effective rates until April 1991; subsequently, end-of-period data. – (2) Weighted average of compound 3-month yields, gross of tax. – (3) Difference between the Italian 3-month interbank rate and the corresponding German rate.

The intensifying pressure on the lira necessitated an increase in official interest rates on 5 July: the discount rate was raised from 12 to 13 per cent and that on fixed-term advances from 13 to 14.5 per cent. The announcement of measures to reduce the 1992 budget deficit by 30 trillion lire on 11 July failed to curb the pressure. When the German discount rate was increased by 0.75 points on 16 July, Italy's rates on discounts and fixed-term advances were immediately raised again by a corresponding amount. The higher interest rates helped to bring about a deceleration in M2. Tensions eased towards the end of the month, following concerted intervention in support of the dollar, and especially after the Italian employer and trade union organizations had signed an agreement on labour costs on 31 July. This made it possible to send a positive signal to the markets by cutting both official interest rates by half a point.

The pressures on the lira returned with a vengeance at the end of August, coinciding with a strong appreciation of the Deutschemark in international foreign exchange markets. A decisive factor during this period was the widespread anticipation of a realignment of central rates within the EMS after the French referendum on the Maastricht Treaty, scheduled for 20 September. As the date approached, substantial positions in Deutschemark were built up, despite the wide interest rate differential. The weakening of the lira was accompanied by a further fall in the prices of Italian government securities; Treasury bonds declined in value by more than 5 percentage points in the three months ending in August.

At the end of August, as the tensions spread to other EMS currencies, the lira fell to the lower limit of the fluctuation band, triggering compulsory bilateral intervention under the rules of the ERM. On Friday 4 September, in the face of ferocious speculative pressure, official interest rates were raised by 1.75 percentage points. With the supplementary fiscal package still to be finalized, exchange market intervention was intensified the following week, despite a rise in the overnight interbank rate to over 30 per cent. The interventions, which were carried out jointly with the Bundesbank and the National Bank of Belgium, were on a scale sufficient to affect Germany's money supply. It was therefore decided, in concert with the German monetary authorities, to propose a general realignment. At the same time the Bundesbank undertook to reduce its official interest rates by an amount that would depend on the extent of the realignment and the average revaluation of the Deutschemark. In the event, however, the realignment consisted solely in a 3.5 per cent devaluation of the lira and a corresponding revaluation of all the other currencies. The decision of even the weaker-currency countries to keep their central rates against the Deutschemark unchanged undermined the credibility of the realignment and blunted its impact on the foreign exchange market.

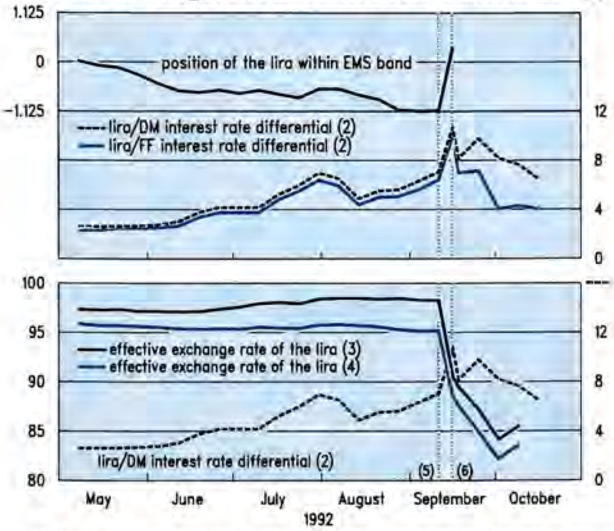
The foreign exchange pressures did not abate. On 16 September the British Government was forced to suspend sterling's membership of the ERM, and the central rate of the Spanish peseta was lowered by 5 per cent. The Italian Government temporarily suspended exchange market intervention, and on 17 September announced new, more stringent measures to reduce the budget deficit. The acceptance of the Maastricht Treaty by a very narrow margin in the French referendum failed to calm the turbulence in the foreign exchange markets, prompting Italy to prolong the floating of the lira and to keep official interest rates unchanged.

Bank of Italy intervention in the money market

In April and May the lira dropped into the lower part of its fluctuation band as the dollar weakened (Figure 1). The Bank of Italy tightened liquidity conditions to a limited extent; the rates on repurchase agreements rose by 0.3 percentage points, reaching 12.4 per cent at the end of May and coming close to the maximum rate on fixed-term advances. In view of the Treasury's large borrowing requirement, rates on issues of government securities increased across the board, though the rise was small. At the end of May the average after-tax tender rate on Treasury bills was 11.5 per cent, 0.3 points higher than at the end of March. The M2 measure of the money supply grew at a rapid pace in the first few months of 1992, continuing a trend that had begun in the last quarter of 1991.

Figure 1

Lira exchange rates and interest rate differentials (1)



(1) Weekly averages of daily data. – (2) Interbank rates on 3-month funds. – (3) Vis-à-vis the currencies of Italy's 14 leading trading partners (index, 1987 = 100). – (4) Vis-à-vis the other ERM currencies (index, 1987 = 100). – (5) EMS realignment on 13 September. – (6) Suspension of compulsory Italian intervention in foreign exchange markets on 17 September.

The tensions that arose within the EMS at the beginning of June had an especially severe impact on the lira. The Bank of Italy limited the depreciation with purchases that totaled 8 trillion lire during the month. On 4 June the rate on fixed-term advances was raised from 12.5 to 13 per cent. By gradually diminishing the availability of repurchase operations and offering fixed-term advances only to the extent necessary to ensure the orderly conduct of interbank transactions, the Bank pushed money market rates above the highest refinancing rate (Figure 2). The overnight rate rose to an average of just under 15 per cent in the second half of the month, and the three-month interbank rate was around 14 per cent. The three-month differential vis-à-vis the DM widened to 4.2 points. The average rate on Treasury bills rose to 12.2 per cent after tax at the end-June auction, an increase of 0.7 points compared with the end of May. The rise was accompanied by greater dispersion in bid rates. The tender rates on medium and long-term paper also rose, taking them close to the floor-price rate.

In the first twenty days of July the tensions within the EMS were aggravated by another sharp depreciation of the dollar. On 5 July the Bank of Italy raised the discount rate by 1 point to 13 per cent and the rate on fixed-term advances from 13 to 14.5 per cent. On 16 July both rates were increased by a further 0.75 points in response to similar action by Germany. The marginal cost of repurchase agreements rose by about 2 percentage points over the twenty days to 16 per cent. The overnight rate rose to 17.7 per cent and the three-month interbank rate to 16.9 per cent. The three-month differential vis-à-vis the mark widened by more than 3 points to 7.1 percentage points. In the last ten days of the month the foreign exchange pressures abated, thanks in part to concerted intervention in support of the dollar. Demand for government securities remained slack; yields increased both at issue and on the secondary market. At the end-of-July auction, the average net yield on Treasury bills rose to 13.2 per cent, 1 point higher than at the end of June. The mid-month auction of Treasury bonds resulted in an after-tax rate of 11.8 per cent, equal to the floor-price rate. The Bank of Italy intervened in the secondary market with outright purchases totaling 11 trillion lire in June and July.

Improved expectations in the first twenty days of August helped to reduce the pressure on the lira and permitted an easing of monetary conditions. The improvement stemmed in part from the 31 July agreement on the cost of labour and parliamentary approval of the Government's July budget measures. On 3 August the Bank of Italy lowered the discount rate by half a point to 13.25 per cent. Rates on repurchase agreements declined to around 14.4 per cent.

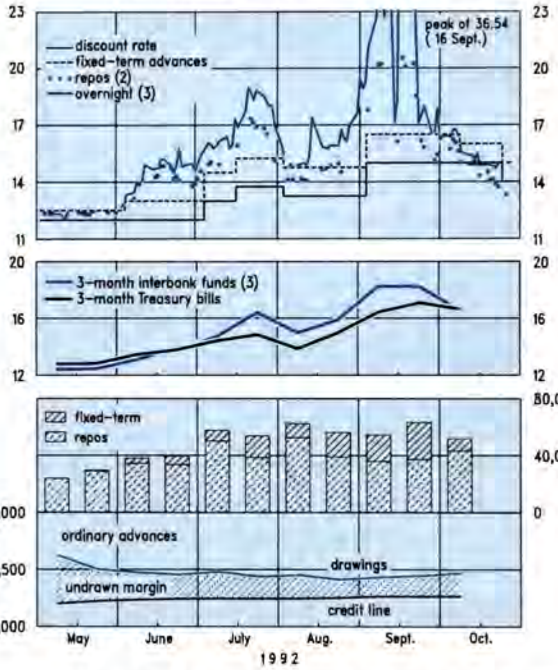
The downward pressure on the lira resumed in the last ten days of August, fueled by the renewed depreciation of the dollar and uncertainty about the outcome of the imminent French referendum on the Maastricht Treaty.

The Bank of Italy's foreign exchange market operations were supplemented by those of the Belgian and German central banks, which intervened to keep the lira within its EMS limits. Domestically, the Bank's open market operations resulted in a sharp tightening of monetary conditions. Interest rates on repurchase agreements returned to 15 per cent and interbank rates rose respectively to 17 and 16 per cent on overnight and three-month funds. The three-month differential with respect to the mark, which had narrowed to 5.3 points during the first twenty days of August, widened to more than 6 points. The average net tender rate on Treasury bills, which had declined by 0.6 points at the mid-month auction, rose to 13.3 per cent at the end of the month. Uncertainty amplified the dispersion of bid rates that had obtained since the end of June. The Treasury accordingly decided to increase the spread used to determine its stop-out yield to 1.5 percentage points from the next auction.

On Friday 4 September the Bank of Italy raised the discount rate by 1.75 points to 15 per cent, effective immediately. The Minister of the Treasury increased the penalty rate for non-compliance with the reserve requirements from 5 to 10 points above the discount rate. The following week interbank rates averaged more than 20 per cent, with peaks of over 30 per cent for the shortest maturities. On 14 September, simultaneously with the EMS realignment, the Bundesbank lowered its discount and lombard rates respectively by 50 and 25 basis points, but the foreign exchange pressures intensified. On 17 September Italy suspended official intervention in the foreign exchange market. At the end of the month the effective exchange rate of the lira with its 14 principal trading partners was 4.8 per cent down compared with the last official quotation. Vis-à-vis the other European Community currencies, the depreciation amounted to 6.1 per cent. In a situation of acute uncertainty, with the prices of government securities declining on the secondary market, the Bank of Italy's operations were designed to permit only a gradual reduction in short-term interest rates. In the days following the suspension of foreign exchange intervention, the overnight rate dropped to 20.5 per cent, an average fall of about 3 percentage points compared with earlier in the month. Interbank rates on three-month funds eased by just 0.3 points to 18.0 per cent. However, interest rates continued to rise in the market for Treasury bills. At the end-September auction the average net tender yield was 15.7 per cent. During the month the Bank of Italy began effecting currency swaps with banks at a cost equal either to the weighted average on repurchase agreements at the latest auction or to the rate on fixed-term advances, whichever was higher. There was a further slowdown in the expansion of bank deposits, continuing the trend that had emerged in July. On the basis of quarterly averages, the growth in M2 dropped to 5.3 per cent, only just above the lower limit of the target range.

Figure 2

Official interest rates, money market rates and central bank financing (1)



(1) For official rates, those on repos and overnight rates, daily figures; for Treasury bills, simple pre-tax tender yields; for other rates, 15-day averages of daily figures. – (2) Marginal tender rate. – (3) Weighted average of bid-ask prices.

In October, the tensions in international markets diminished and the Bank accordingly allowed monetary conditions to ease. On the 8th of the month it decreased the premium on fixed-term advances by half a point to 1 per cent; on the 23rd, after Parliament approved the enabling law on the public finances, it lowered the discount rate by 1 point to 14 per cent. On the interbank market, overnight and three-month interest rates dropped by about 3 points to under 15 per cent.

In the temporary absence of a reference parity for the lira within the EMS, the task of stabilizing expectations is entrusted to the control of the money and credit aggregates. The Government's commitment to set new EMS parities can be honoured once confidence in the economic outlook has been restored.

In the first few days of floating, the lira's exchange rate against the Deutschemark ranged between 830 and 850; it weakened to nearly 1,000 at the beginning of October, then recovered to between 870 and 880. As pressure eased, the monetary stance could gradually be relaxed. On 8 October the premium on fixed-term advances was lowered by half a point. During the first half of the month the overnight rate fell below that on fixed-term advances. The average tender rate on Treasury bills declined slightly at the mid-month auction, despite net issues of more than 4 trillion lire, and the reduction in yields spread to long-term paper as well. At the same time, demand for medium and long-term securities revived; net issues in this segment, which were nil in August and negative in September, amounted to 3 trillion lire in October.

The more relaxed conditions in international financial markets, parliamentary approval of the core of the budget package and the slowdown in inflation in October permitted a one-point reduction in the discount rate on 23 October. At the same time the Bank of Italy began monitoring the growth of banks' lira lending in order to prevent the reduction in rates from generating an undesirable acceleration in credit and to limit the inflationary impact of the devaluation. The average net yield at the end-month Treasury bill auction was 12.87 per cent, more than 2.5 percentage points below the mid-month rate and about the same as in mid-July.

The foreign exchange crisis had a strong effect on the composition of monetary creation. In the first nine months of the year there was a foreign exchange outflow of 58 trillion lire, compared with an inflow of 4 trillion lire in the corresponding period of last year (Table 16). The Treasury created 3.5 trillion lire of monetary base, compared with the destruction of nearly 10 trillion lire in the first three quarters of 1991.

Table 16

Monetary base
(changes in billions of lire) (1)

	1991		1992 (2)
	Jan.-Sept.	Year	Jan.-Sept.
Sources			
Foreign sector	4,042	–8,674	–57,970
Treasury	–9,875	–9,458	3,519
Borrowing requirement	*103,943*	*152,322*	*111,059*
(excluding settlements of past debts	*103,908*	*152,249*	*111,028*
Outstanding securities excluding BI	*–102,134*	*–137,532*	*–106,687*
PO deposits and foreign loans (3)	*–11,684*	*–24,248*	*–853*
Open market	7,601	27,172	37,436
Refinancing of banks	–3,730	2,664	17,306
Other sectors	–2,296	–583	–3,918
Total	**–4,258**	**11,121**	**–3,627**
Uses			
Currency in circulation	–347	6,905	2,111
Bank reserves	–3,911	4,216	–5,738
Deposits with BI	–2,817	3,646	–3,269
Memorandum item: compulsory reserves	–2,510	3,424	–3,851
Other items (4)	–1,094	570	–2,469

(1) Based on end-of-period data. Rounding may cause discrepancies in the totals. – (2) Provisional. – (3) Includes other minor items (chiefly bank loans). – (4) Vault cash and undrawn margin of ordinary advances.

This was due mainly to drawings on the Treasury's overdraft facility with the Bank of Italy, which totaled 13.2 trillion lire over the period but were concentrated mainly in September; in the first nine months of 1991 drawings had amounted to 2.3 trillion. The Bank of Italy provided liquidity to the banking system by means of open market operations and advances, at rapidly rising rates from June onwards. Securities repurchase agreements created 20.2 trillion lire of monetary base. Net outright purchases of securities amounted to 17.2 trillion in the first nine months of the year, bringing total open market operations to 37.4 trillion, compared with 7.6 trillion in the first three quarters of 1991. Central bank lending to the banking system created 17.3 trillion lire, whereas during the same period last year 3.7 trillion had been destroyed through this channel. Calculated from monthly averages, the monetary base grew at a seasonally adjusted annual rate of 6.9 per cent in the first nine months, compared with 8.9 per cent in the same period of 1991. Bank reserves grew much more slowly, by 2.9 per cent compared with 8.5 per cent a year earlier (Table 17). There was a marked slowdown in monetary growth during the summer, when the Bank of Italy elected not to offset the entire foreign exchange outflow.

Table 17

Monetary variables

(percentage changes during period) (1)

	1991		1992 (2)
	Jan.-Sept.	Year	Jan.-Sept.
Bank reserves (3) ...	8.5	8.9	2.9
Monetary base (3) ...	8.9	9.7	6.9
Bank deposits	6.8	7.7	4.2
Money supply (M2) ..	7.2	8.3	5.3

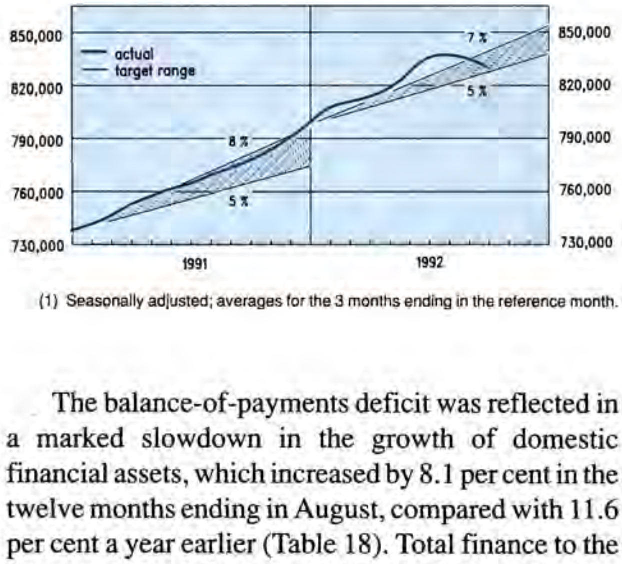
(1) Annual, seasonally adjusted rate. Bank reserves and monetary base calculated as averages of daily data for the mid-month to mid-month maintenance period, bank deposits and the money supply as averages for the three months ending in the months specified. – (2) Provisional. – (3) Corrected for the change in the compulsory reserve ratio.

Until June, the shift in the composition of the public's portfolio towards liquid assets caused the growth of M2 to be consistently above the target and led to an expansion of customers' repurchase agreements with banks. In July the growth of M2 slowed down again; the deceleration, which was favoured by the widening of the differential between money market and deposit rates, may have been due partly to the special wealth tax levied on deposits as well as to the increasing momentum of the outflows of foreign exchange. On a seasonally adjusted annual basis, the growth of M2 in relation to the fourth quarter of 1991 came back down towards the top of the target range of 5-7 per cent in August, and eased to 5.3 per cent in September (Figure 23). The many uncertainties in the situation contributed to a sharp increase in cash in circulation from August onwards, in marked contrast to the slowdown in deposits.

Figure 23

Money supply (M2) (1)

(target range and actual; billions of lire)



(1) Seasonally adjusted; averages for the 3 months ending in the reference month.

The balance-of-payments deficit was reflected in a marked slowdown in the growth of domestic financial assets, which increased by 8.1 per cent in the twelve months ending in August, compared with 11.6 per cent a year earlier (Table 18). Total finance to the non-state sector also grew more slowly, accentuating the tendency that had emerged in 1990; the twelve-month growth rate was 11 per cent in August, more than 4 points less than in the same month of 1991, while the twelwe-month growth of domestic credit came down to 12.1 per cent in August and 10.7 per cent in September, compared with 14.9 per cent in August 1991. Despite the larger public sector borrowing requirement, the twelve-month expansion in total credit declined to 11.4 per cent in August, compared with 14 per cent a year earlier.

4

Table 18

Credit and financial assets
(percentage changes and shares; end-of-period data)

	Growth rate			Share of outstanding stock	
	1991		1992	1991	1992
	Year	August (1)	August (1)	August	August
Total credit	**12.5**	**14.0**	**11.4**	**100.0**	**100.0**
Domestic finance to the non-state sector	*13.8*	*14.9*	*12.1*	*35.2*	*35.5*
from: *Banks*	*15.0*	*16.2*	*13.5*	*22.1*	*22.5*
Special credit institutions	*12.2*	*14.7*	*10.9*	*11.9*	*11.9*
Bonds	*9.5*	*–4.0*	*–2.7*	*1.2*	*1.1*
Domestic finance to the state sector	*11.8*	*12.7*	*12.3*	*56.4*	*57.2*
Foreign finance	*11.8*	*19.0*	*2.3*	*8.4*	*7.3*
Financial assets (2)	**10.9**	**11.6**	**8.1**	**100.0**	**100.0**
M2 (3)	*9.0*	*8.1*	*6.5*	*39.6*	*39.0*
Other liquid assets (4)	*15.9*	*14.9*	*18.0*	*26.0*	*28.4*
Medium and long-term government securities	*9.2*	*13.3*	*2.0*	*31.4*	*29.6*
Other (5)	*10.7*	*10.5*	*8.8*	*3.0*	*3.0*

(1) Twelwe-month change. – (2) Domestic financial assets of the non-state sector, excluding direct holdings of shares. – (3) Calculated using monthly averages. – (4) Savings certificates, Treasury bills, Treasury bills in ecus, repurchase agreements, special credit institution CDs and banker's acceptances. – (5) Investment fund units, non-state sector assets with special credit institutions, surety deposits of firms and atypical securities.

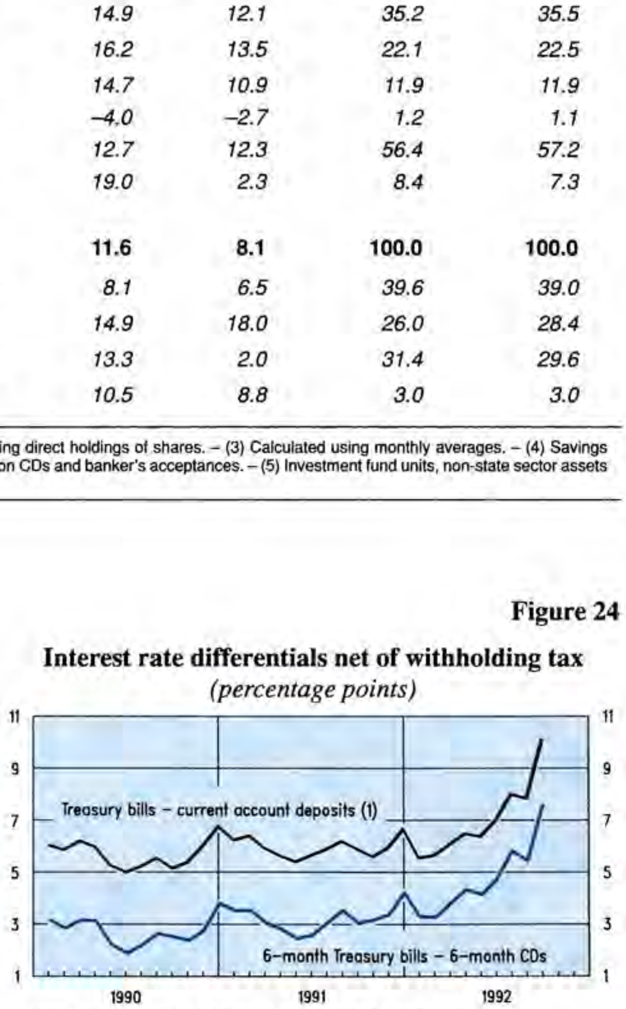
The activity of credit intermediaries

From June onwards the tightening of monetary conditions was rapidly transmitted to bank lending rates. By the end of September average lending rates had risen by more than 3.5 points, a little less than the increase in the average rate on Treasury bills during the same period but over half a point more than that in the official discount rate. Rates on loans to prime customers went up by a smaller margin, so that the difference between average and minimum lending rates increased to nearly 2.5 points, the largest differential for six years.

On the liabilities side, the average rate on current account deposits rose by only 0.4 points, while that on CDs went up by around 1 point. As a result, the spreads in relation to net yields on Treasury bills widened considerably, to stand at 7 points in the case of CDs and 10 points in that of current account deposits at the end of September (Figure 24).

Figure 24

Interest rate differentials net of withholding tax
(percentage points)



(1) Weighted average tender rate of 3, 6 and 12-month Treasury bills.

The rise in lending rates reinforced the slowdown in credit expansion that had already emerged in the second quarter; the 12-month rate of growth in bank lending fell from 12.8 per cent in April to 11.6 per cent in September. In the first nine months of the year the expansion was fueled by continued strong demand from non-financial companies, which had to contend with a contraction in self-financing and a decline in fund-raising on the capital market. In the first three quarters of the year, firms responded to the rise in bank lending rates by reducing their lira debt and increasing that in foreign currency: the 12-month rate of growth in lira borrowing declined by more than 4 points to 9.7 per cent, while that in foreign currency debt rose by nearly 15 points to 22.4 per cent. Over the same period lira loans accounted for only 22.5 per cent of firms' new borrowing, compared with 80.7 per cent a year earlier.

The slowdown in total lending in recent months was also evident in loans to sectors that in the past had been less affected by periods of recession, such as financial and service companies (Table 19). The growth in lending to manufacturing firms was more stable; by July it had fallen back to its level of last December after having accelerated in the first four months of the year. The slowdown in lending to manufacturing industry was more pronounced for large companies, which were more vulnerable to the fall in foreign demand and investment spending, than for small and medium-sized firms, which may have benefited to a greater extent from the sustained demand for final consumer goods. Among financial companies, the slowdown in bank lending to private holding companies was particularly marked; the fall in the 12-month rate of growth in lending to these companies from 57.1 per cent in December to 5.3 per cent in July may have reflected retrenchment of their subsidiaries' investment programmes. The acceleration in lending to consumer households at the end of 1991 abated in the early months of this year, with the 12-month rate of growth declining from 16 per cent in December to 13 per cent in July.

Table 19

Loans outstanding to financial and non-financial companies (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. 91	July 92	Dec. 91	July 92	Dec. 91	July 92	Dec. 91	July 92
Financial and insurance companies	**100,918**	**98,839**	**24.5**	**21.6**	**48,345**	**49,835**	**5.0**	**6.6**
holding companies	*25,296*	*25,541*	*57.1*	*5.3*	*8,993*	*9,211*	*6.7*	*–2.6*
state holding companies	*15,517*	*12,251*	*0.5*	*21.0*	*12,376*	*13,387*	*16.4*	*9.5*
leasing	*16,261*	*16,288*	*21.2*	*17.7*	*13,601*	*13,756*	*4.9*	*13.8*
factoring	*17,754*	*13,999*	*5.8*	*11.7*	*3,345*	*2,779*	*–12.3*	*–24.4*
consumer credit	*6,655*	*6,064*	*41.7*	*14.2*	*4,086*	*3,444*	*10.1*	*–15.4*
Non-financial companies	**295,476**	**320,270**	**14.3**	**13.9**	**151,922**	**163,636**	**11.5**	**13.8**
manufacturing	*133,743*	*144,882*	*8.1*	*8.2*	*55,105*	*57,115*	*6.1*	*8.2*
market services	*109,533*	*118,756*	*22.9*	*19.6*	*59,939*	*65,921*	*16.7*	*16.6*
Total	**396,394**	**419,109**	**16.8**	**15.6**	**200,267**	**213,471**	**9.9**	**12.0**

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

Banks' repurchase agreements with customers

Banks' repurchase agreements with customers have expanded rapidly in the last two years: the stock outstanding at the end of August 1992 amounted to 93.8 trillion lire, compared with an average of 51.3 trillion in the last quarter of 1991 (see table). Customer repos generally have a maturity of between one and three months, with interest rates reflecting those on Italian Treasury bills of comparable maturity. Both supply and demand factors have contributed to the growth.

On the supply side, the elimination of the reserve requirement on repos from May 1991 onwards played a decisive role, making it advantageous for banks to finance purchases of government securities through simultaneous repos with customers. In the case of transactions on Italian Treasury credit certificates, banks' exposure to interest rate risk was particularly small: they bought securities offering a higher yield than the reference rate on Italian Treasury bills, financing this investment at rates comparable with those on Treasury bills. This is why this type of security has been the one most commonly used in repos, accounting for 57 per cent of the stock outstanding at the end of August 1992.

On the demand side, the popularity of repos was partly due to their more favourable tax treatment in comparison with alternative short-term instruments; short-dated CDs are subject to 30 per cent withholding tax. Furthermore, while Italian Treasury bills offer investors features similar to those of repos, they suffer from the drawback that they can be bought almost only at auction, since supply in the secondary market is very limited; in addition, maturities other than those offered on Treasury bills may be preferred for reasons of liquidity management.

Following the rise in short-term rates that began in June (and before the adoption of Decree Law no. 378 on 17 September), repos offered individuals increasingly favourable tax treatment compared with Italian Treasury bills. In the case of repos on lira securities subject to withholding tax, only the coupon yield was taxed, while any capital gains on the forward sale of the securities were not; as the differential between coupon rates and short-term rates widened, the tax-exempt portion of income increased.

The rise in short-term lira rates also stimulated repos on securities denominated in foreign currency, which offered a particularly large tax-exempt yield component. In such operations intermediaries carry out two transactions: first, a repo on foreign currency securities, similar to those on lira securities but with yields reflecting interest rates in the currency of denomination, and, second, a forward sale of that currency. The yield associated with the premium on the forward sale was high, owing to the large positive differential between rates in lira and those in foreign currency. For the two transactions as a whole, only the coupon interest was taxable; as the differential between rates in lira and those in foreign currency widened, the tax-exempt component grew. Moreover, in the case of tax-exempt securities, such as those issued by international organizations or the Republic of Italy before 10 September 1992, the entire operation was exempt. The abundant stocks of tax-exempt foreign currency securities held by non-residents gave rise to a large flow of transactions with abroad, channeled through the banking system and other intermediaries.

Decree Law no. 378 of 17 September 1992 imposed a tax on income accruing to individuals from bond repos and foreign exchange forward sales concluded from 18 September onwards. The difference between the initial sale price and the repurchase price of securities and the premium on forward sales of foreign currency are now subject to 12.5 per cent withholding tax. The tax is withheld by resident intermediaries. Non-resident intermediaries are not required to withhold the tax on contracts they enter into, but in this case residents have to pay the tax at the same flat rate when they file their annual tax return.

The Decree formally recognizes the fact that repurchase agreements can produce profits other than the interest accruing on the securities involved. In particular, the measure applies to transactions in foreign currency securities involving a forward sale of the currency of denomination that generates tax-exempt profits at no risk. To prevent double taxation, the interest accruing during the life of repos on bonds subject to withholding tax is not part of the taxable income from repos.

Banks' repurchase agreements with customers (1)

(billions of lire)

		Total	Foreign currency securities	Treasury credit certificates	Treasury bonds	Other lira securities
1991 -	1st qtr.	14,608	254	11,094	900	2,360
	2nd "	17,703	294	13,141	1,203	3,065
	3rd "	36,956	540	26,639	2,667	7,110
	4th "	51,303	1,487	35,056	5,519	9,241
1992 -	1st qtr.	72,262	2,355	46,429	9,440	14,038
	2nd "	78,668	4,254	50,736	10,398	13,280
1992 -	August	93,754	6,504	53,914	13,897	19,439

(1) The quarterly figures are the average of transactions outstanding at the end of each month in the quarter.

The growth in bank deposits, which had decelerated in the first quarter and revived in the second, slowed down sharply from July onwards. With lending growing much more rapidly than domestic deposits, banks stepped up their fund-raising abroad, which rose to 128.1 trillion lire in August. They also reduced their securities portfolios by selling stocks in the market and carrying out repurchase operations with customers and the Bank of Italy.

Bank deposits grew at a seasonally adjusted annual rate of 1.7 per cent in the first nine months of the year, on the basis of average monthly data. The 12-month rate of growth fell from 8.5 to 4.5 per cent over the same period. The slowdown was particularly pronounced for current accounts, whose rate of growth from the beginning of the year swung from 8.3 per cent in June to minus 1.8 per cent in September. From July onwards there was also a slight slackening in the 12-month growth in certificates of deposit, which fell from 31.6 per cent in June to 27.7 per cent in September. CDs nonetheless rose to 26 per cent of total of deposits in September, compared with 21 per cent a year earlier, thanks primarily to sales of CDs for terms of more than 18 months, which enjoy more favourable tax treatment. Savings accounts declined further as a share of total deposits, falling from 21.3 per cent at the end of 1991 to 19.6 per cent in September. In the first eight months of the year the banks' net external liabilities, adjusted for exchange rate variations, grew by 50.4 trillion lire, more than double the increase recorded in the corresponding period in 1991. In September this tendency was reversed and the banks' net foreign indebtedness fell by 23.3 trillion. The latter change was not reflected in any substantial reduction in foreign currency lending to residents; instead, it was accompanied by slower growth in lira assets and an increase in residents' deposits.

Including securities sold to the Bank of Italy under repurchase agreements, banks' portfolios of government securities increased by 19.5 trillion lire in the first nine months of the year, 16.5 trillion in September alone. At the end of that month their holdings were equal to 28 per cent of their portfolios of lira loans, compared with 27.2 per cent in September 1991.

Banks' temporary sales of securities to customers continued to expand rapidly in response to strong demand from the household sector, which accounted for about 78 per cent of the banking system's repos in September, as against 68 per cent in December. In August the total value of customer repos outstanding was 93.8 trillion lire, an increase of 46.4 trillion since the beginning of the year. Temporary purchases of securities from customers also grew strongly and amounted to 19.7 trillion lire in August, a rise of more than 10 trillion over the same period.

Banks' results for the first half of the year show a further slight erosion in operating profit. This was partly due to a decrease in net interest income to 3.71 per cent of total resources and to a fall in net non-interest income, mainly reflecting lower profits from securities trading; gross income thus declined to 4.88 per cent of total resources. Taking into account the further rise in operating expenses and staff costs, operating profit fell from 1.83 to 1.60 per cent of resources, according to available information. However, banks' results for the year are bound to be strongly affected by the developments of the last few months, which have seen securities prices fall and the profitability of lending increase as a result of the wider spread between lending and deposit rates.

The deepening recession affected lending by the special credit institutions, which grew at a seasonally adjusted annual rate of 12.2 per cent in the first nine months of 1992, compared with 14.6 per cent in the same period of last year. Real estate and building loans bucked the trend, their 12-month growth rate accelerating from 18.2 to 19 per cent between December and September. In connection with the contraction in lending to financial companies, the volume of short-term industrial loans outstanding diminished by a further 1.9 trillion lire over the nine-month period.

Fund-raising by the special credit institutions also increased more slowly, the annual rate of growth declining from 15.4 per cent in December to 13.2 per cent in June. Bond issues increased and represented 51.3 per cent of the institutions' fund-raising, compared with a share of 28.7 per cent in the first half of 1991. By contrast, the share of funds raised by way of CDs and deposit-taking in foreign currency and external lire fell from respectively 16.5 and 54.8 per cent in the first half of 1991 to 14.6 and 34.1 per cent.

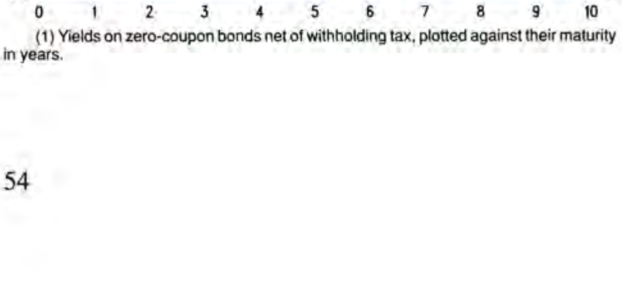
The financial market

The developing foreign exchange crisis and growing uncertainty as to the nature and timetable of the measures to be taken to rehabilitate the public finances favoured a rise in long-term interest rates during the summer. The secondary-market yield on 10-year Treasury bonds rose by more than 1 percentage point between June and mid-September, widening the differential vis-à-vis long-term German yields by the same amount. In the second half of September, following the devaluation of the lira, the differential widened by a further 0.2 points and only began to narrow again in October. Floating rate securities were marked down much more severely than their financial characteristics warranted: the prices of Treasury credit certificates fell by around 5.8 per cent between the end of May and mid-September. Demand for securities at issue weakened and gravitated towards the shortest maturities.

The behaviour of the yield curve for government securities confirms that at least part of the rise in short-term rates was transmitted to longer maturities in June and July (Figure 25). This did not occur in September, when the markets' perception of the temporary nature of the increases in money market rates reduced their impact on long-term rates. At the height of the foreign exchange crisis, the tensions in the money market affected the slope of the yield curve, actually inverting it at the short end.

Figure 25

Yield curves (1)



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

Uncertainty about market prospects heightened progressively during the summer. The bid-offer spread on the screen-based market in government securities recorded spikes of exceptional magnitude (Figure 26). It was almost constantly larger than 0.5 percentage points from the beginning of June onwards, rising in September to an average of 1.24 points for Treasury bonds and 1.58 points for Treasury credit certificates, compared with 0.06 and 0.08 points respectively in the first five months of the year. At the same time, turnover on the spot market began to diminish in June (Figure 27) and spread to Italian Treasury bond futures traded on LIFFE in London. By the end of August the average daily spot turnover in Treasury bonds was only about half the May figure and that in other government securities around one third. The opening of the Italian futures market (MIF) on 11 September made futures trading more readily accessible for domestic operators. In the period to mid-October, turnover on MIF was equal to 85 per cent of the value of Italian futures traded on LIFFE.

Figure 26

Screen-based market: ex coupon price indices and average bid-offer spread

(31 August 1991=100; percentages)

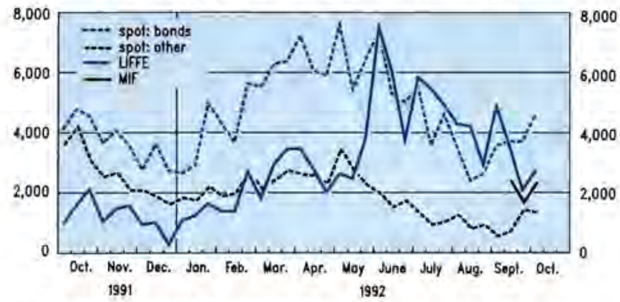
The change in market conditions made it necessary to increase issues of short-dated and floating rate securities (Table 20), which rose from 65 per cent of total net issues in the first five months of the year to 94 per cent in the period from June to

September. The alignment of issue terms with those prevailing in the secondary market was facilitated by the abolition of the floor price in all auctions of government securities at the beginning of August.

Demand for securities at issue weakened considerably between June and September; subscriptions for Treasury bonds fell from 180 per cent of the issue volume in the first five months of the year to 110 per cent, for Treasury credit certificates from 180 to 160 per cent and for Treasury bills from 120 to 100 per cent.

Figure 27

Turnover in government securities on the spot and futures markets (1)



(1) Average daily turnover in billions of lire.

The greater dispersion of bids, reflecting both growing uncertainty and speculative behaviour, triggered the mechanism for excluding bids at excessively high yields and led to 3.2 trillion lire of Treasury bills and 500 billion lire of Treasury bonds remaining unsold. The increase in issues of short-term securities caused the average residual maturity of the public debt to fall below 3 years, after it had peaked at 3 years and 1 month in May.

Net subscriptions of government securities by non-bank investors amounted to 80.4 trillion lire in the first eight months of the year, compared with 100 trillion in the same period in 1991. This was due partly to net disposals by foreign investors and portfolio adjustment by residents. The reduction in non-banks' net investment is even larger after adjustment to exclude securities held under repurchase agreements with banks: net of these temporary holdings (which rose to 31.5 trillion lire in the first eight months of 1992 from 22.6 trillion a year earlier), the public's outright holdings of government securities grew by 48.9 trillion lire (as against an increase of 77.4 trillion in the same period of 1991) and those of the banking sector increased by 44.1 trillion (1.4 trillion a year earlier).

Table 20

Government securities
(billions of lire)

	Bills (1)	Ecu bills	Credit certificates	Bonds	Option certificates	Ecu credit certificates	Other	Total
				Gross issues				
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
1991	602,421	4,989	99,000	93,000	23,000	3,680	–	826,090
1991 Jan.-Sept.	449,592	3,458	71,000	68,000	18,000	2,602	–	612,652
1992 Jan.-Sept.	484,555	3,464	69,000	72,470	14,500	3,469	–	647,458
				Net issues				
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
1991	13,894	–2,254	9,268	85,774	22,923	1,775	–3,296	128,084
1991 Jan.-Sept.	8,949	–692	4,066	64,659	17,911	675	–3,150	92,418
1992 Jan.-Sept.	20,249	7	49,372	24,060	10,165	45	–7,006	96,892

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

The Italian futures market

On 11 September the Italian futures market (MIF) opened for trading in contracts on 10-year Treasury bonds. The inauguration of MIF has widened the range of products supplied by the domestic market, offering investors an instrument featuring high liquidity and limited management costs that hitherto had only been available in markets abroad. Futures trading will further facilitate the hedging of interest rate risk, with positive effects on sales of long-term fixed rate paper, and will enhance the information efficiency of the market in government securities.

MIF is a screen-based market and shares a single trading network and organizational structure with the spot market in government securities. Responsibility for self-regulation is entrusted to the Management Committee, which is made up of primary dealers and establishes trading procedures, ensures market oversight and determines the features of standardized derivatives. The latter must be approved by the Minister of the Treasury.

The decision to base MIF on the same organizational and telematic structure as the spot market distinguishes the Italian market from those abroad, where derivatives are normally traded through structures that are independent of the underlying markets.

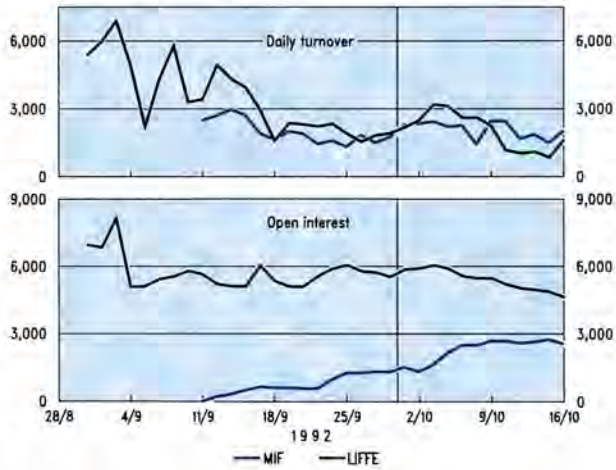
The 22 primary dealers on MIF undertake to quote bid and offer prices on minimum lots of 20 contracts on a continuous basis, for the purpose of ensuring a liquid market. The diffusion of price information is assisted by the fact that the 5 best bid and offer prices are displayed on the trading screens. Credit institutions and securities firms are eligible to participate in the market as brokers, but in that capacity must undertake to trade exclusively on behalf of third parties. This category of participant was instituted in order to facilitate customers' access to the market, eliminating potential conflicts of interest. Primary dealers and brokers are the only persons authorized to' quote prices on the screen-based trading network.

The Treasury bond futures contract traded on MIF differs from that listed since 19 September 1991 on the London International Financial Futures Exchange (LIFFE) in minor respects: its nominal value is 250 million lire, compared with 200 million for the LIFFE contract; in addition, delivery may be made in Treasury bonds having a residual maturity of between 8 and 10 years at the date of delivery and a float of at least 3 trillion lire, whereas the LIFFE contract provides for delivery in bonds with a residual maturity of between 8 years and 10 and a half years and a float of at least 4 trillion. Accordingly, prices in the two markets will tend to differ only where the cheapest bond to deliver has a float of between 3 and 4 trillion lire.

MIF has recorded a high volume of business from the very outset, with average daily turnover of 2 trillion lire, equal to more than 80 per cent of the corresponding figure on LIFFE, where trading hours are longer (see the figure). Average daily turnover in Italian bond futures on LIFFE declined from around 3.6 trillion lire in the month preceding the start-up of MIF to 2.4 trillion in the subsequent month, the decrease being smaller, however, than the turnover handled by MIF.

Italian Treasury bond futures on MIF and LIFFE: daily turnover and open interest

(billions of lire)



An investigation of the relationship between the spot market and MIF, performed by calculating the theoretical futures price on the basis of the spot price of 10-year Treasury bonds, indicates that price differences are small and opportunities for arbitrage between the two markets limited.

Roughly 80 of the 140 authorized participants effected trades on MIF in its first weeks in operation. Trading activity was primarily for own account; transactions on behalf of customers, though growing, constituted about 10 per cent of the total. The 10 most active traders accounted for half of the total turnover in September. Moreover, the 3 largest brokers carried out around 55 per cent of all third-party transactions.

Open positions have grown rapidly, although they are still markedly smaller than on LIFFE: just under 3 trillion lire, compared with some 5 trillion (see the figure). The lower level of open interest on MIF is attributable to the as yet modest activity of institutional investors, which results in trading being concentrated in the hands of a small number of participants who close most of their positions at the end of the day.

The progressive tightening of monetary conditions, the poor outlook for growth and the uncertainty surrounding fiscal policy affected share prices, which by the end of September showed a fall of 28.3 per cent since January, compared with one of 2.1 per cent over the first five months of the year. The performance of the Milan Stock Exchange thus diverged further from that of the leading exchanges in Europe and the United States, and for the second consecutive year was comparable only to that of the Tokyo exchange. Against this background, share issues by listed companies fell to 1.8 trillion lire in the first eight months of the year from 2.9 trillion in the corresponding period in 1991. Share prices showed signs of recovery in October as a result of the suspension of capital gains tax and a strengthening of expectations of a cut in interest rates: in the first half of the month the index rose by 12.4 per cent.

Figure 28

Securities market: indices of capitalization

(31 December 1989=100))

The uncertain outlook for the Italian share market and the large fall in share prices depressed market turnover, which totaled 19.7 trillion lire in the first nine months of 1992, compared with 26 trillion a year earlier. Technical malfunctions prevented the admission of more shares to continuous screen-based trading; nonetheless, the system continued to have a positive effect on trading in the 35 eligible shares, which rose from 26.8 per cent of total market turnover in June-August 1991 to 40 per cent in the same three months of this year. Block trading, on which statistics have been kept since January, was brisk; turnover in the first nine months of the year totaled 9 trillion lire, equal to approximately half the value of trades effected on the floor of the exchange. Finally, the fund set up by the clearing house to facilitate the timely completion of monthly settlements and prevent the recurrence of delays caused by the insolvency of individual dealers came into operation at the beginning of the September account.

The difficulties of the share and bond markets affected Italian investment funds, which recorded net redemptions of 3 trillion lire in the four months from June to September (2.7 trillion for bond-based and mixed funds and 300 billion for share-based funds). Coupled with the steep decline in the value of domestic securities, this caused the funds' net assets to fall by 9.1 per cent to 56.6 trillion lire at the end of September.

Investment strategies that favoured more liquid instruments and greater risk diversification led funds to reduce further the portion of their resources invested in shares and to increase that invested in foreign bonds; the portion invested in Italian bonds and government securities ceased to grow and Italian shares fell to 12 per cent of the total portfolio, little more than half the percentage recorded a year earlier. The shift towards foreign securities and short-term instruments enabled funds to offset part of their losses on bonds. In the first nine months of the year the average net yield on bond-based funds was 5.02 per cent, compared with 3.44 per cent on Treasury bonds and 3.89 per cent on Treasury credit certificates. Although share-based funds limited the losses sustained as a result of the poor performance of the stock market, their average net yield was negative (–7.45 per cent).

Short-term prospects

The international economy

Uncertainty and risks hang over economic activity in the industrial countries, owing partly to the instability currently affecting financial and foreign exchange markets. With economic indicators continuing to give conflicting signals, it is impossible to assert that a sustained recovery has begun.

Despite the abrupt slowdown in the German and Japanese economies, growth in the leading industrial countries was slightly faster in the first part of this year than in the second half of 1991, running at an annual rate of 1.8 per cent compared with 1 per cent previously. Since then, however, it appears to have weakened again. According to preliminary figures from the International Monetary Fund, the disparities observed in 1991 between economies where activity was declining (the United States, the United Kingdom and Canada) and those enjoying a more prolonged expansion (Japan and Germany) are likely to become less pronounced this year, so that growth in the industrial countries is likely to average no more than 1.7 per cent, compared with 0.6 per cent in 1991 (Table 21). The economies of the United States, Japan and France are expected to grow by around 2 per cent, while economic activity in the United Kingdom is likely to remain virtually static.

Table 21

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

	1991	1992	1993
GDP (1)			
Industrial countries	0.6	1.7	2.9
of which:			
United States	–1.2	1.9	3.1
Japan	4.4	2.1	3.8
EC	1.1	1.4	2.3
Germany (2)	3.6	1.4	1.9
LDCs	3.2	6.2	6.2
Consumer prices			
Industrial countries	4.4	3.3	3.2
of which:			
United States	4.2	3.1	3.1
Japan	3.3	2.2	2.4
EC	5.1	4.5	4.1
Germany (2)	3.5	3.8	3.5
Budget balances (3)			
United States	–3.4	–4.6	–3.6
Japan	3.0	2.1	2.1
Germany	–2.8	–3.2	–2.5

	1991	1992	1993
Current balances (4)			
Industrial countries	–23.0	–23.0	–36.0
of which:			
United States	–4.0	–35.0	–55.0
Japan	73.0	110.0	101.0
German	–20.0	–22.0	–9.0
LDCs	–78.0	–52.0	–53.0
Unemployment rate (5)			
Industrial countries	7.0	7.7	7.6
of which:			
United States	6.8	7.5	7.1
Japan	2.1	2.1	2.2
EC	9.2	10.0	10.0
Germany (2)	5.5	5.8	6.2
World trade (1)	**2.3**	**4.5**	**6.7**
Exports (2)			
Industrial countries	2.9	3.8	5.7
LDCs	7.6	8.1	9.3
Imports (2)			
Industrial countries	2.4	4.1	5.1
LDCs	9.3	8.5	9.6

Source: IMF, September 1992.
(1) At constant prices. – (2) Western regions. – (3) As a percentage of GDP. – (4) Billions of dollars. – (5) Level.

These projections are endorsed by most of the other forecasting institutions. In the case of Germany, a wide margin of uncertainty remains with regard to the eastern *Länder*, partly owing to statistical problems, while the latest estimates for the western regions of the country are pessimistic, indicating growth of around 1 per cent.

According to the IMF, 1993 should mark a return to more sustained growth, albeit at a slower pace than in previous recoveries. The forecasts of most other research bodies are somewhat less encouraging. The recovery is seen as stemming from the lower short-term interest rates in the United States and Japan and the increase in government budgets this year. In the leading industrial countries as a whole, the impact of the public sector on the economy is expansionary, even after adjustment for the cyclical component; it is more pronounced in Germany and the United Kingdom and weaker in the United States. The stimulatory effects of budget measures approved recently in Japan, involving sums equal to 2.3 per cent of GNP, are expected to appear in 1993. By contrast, almost all the European countries realize the urgent need for action to curb budget deficits; budget plans for 1993 are directed towards achieving a balanced budget in Italy, France, Germany, Spain, Sweden and other countries.

If such action materializes, it will be possible to ease monetary conditions; a decline in real interest rates from their current high levels would offset the restrictive effect of the fiscal measures. In Germany, signs of a slowdown in both activity and inflation, partly owing to the appreciation of the Deutschemark, have permitted a decline in both short and long-term interest rates; they have come down by about 1 percentage point since the realignment within the EMS and the reduction in official interest rates in mid-September. Further interest rate cuts may occur if the above tendencies intensify.

According to IMF forecasts, world trade should recover strongly, growing by 4.5 per cent this year and by almost 7 per cent in 1993, compared with little more than 2 per cent in 1991. The greatest stimulus is expected to come from the developing countries, where the average growth rate should rise from 3 per cent in 1991 to 6 per cent both this year and next. The LDCs' imports are likely to rise by almost 10 per cent, with positive effects on demand in the OECD area.

With the world market prices of oil and other raw materials rising only slowly or even falling and the increase in domestic costs moderated by the slowdown in activity, inflation in the industrial countries should remain at around 3 per cent in 1993. Unemployment is expected to remain high, at around 7.5 per cent in the OECD area as a whole and 10 per cent in the EC.

It cannot be ruled out that economic activity will grow less strongly than portrayed here. Experience in the last two years suggests the need for caution in basing forecasts on extrapolations of very recent developments; economic indicators have fluctuated widely, arousing expectations in both directions that have later proved unfounded. In any case, the signals they are giving, which are reported at length in the opening chapter of this Bulletin, are not encouraging.

One of the risks in the present scenario is that the real economy will be affected by the instability in the financial and foreign exchange markets, which have recently suffered sometimes violent fluctuations, amplified by the massive scale of world capital flows and the freedom and speed with which funds move between integrated markets.

In North America and the United Kingdom, the debt burden of households and firms may continue to depress confidence and the propensity to consume and to invest, despite the relief provided by the fall in interest rates. In Germany, the prospects for the eastern regions, the behaviour of the budget deficit and the level of real interest rates continue to be a source of risk. In Japan, the banks' volume of business is contracting; in the summer the 12-month rate of growth in the reference monetary aggregate turned negative, an unprecedented event. Investment in Europe may be discouraged if share prices fall as a result of high interest rates and poor growth prospects. Finally, protracted instability in financial and foreign exchange markets would cause uncertainty and thus make it more difficult to achieve a lasting recovery in productive activity.

All the leading countries are paying renewed attention to the scale of capital movements and the disturbances they cause in the foreign exchange markets. The US Secretary of the Treasury has proposed that the Group of Ten examine the issue and prepare a report in time for the next summit meeting of the Heads of State and Government of the leading countries. The European countries are reviewing recent experience with the EMS, in the wake of the crisis in the foreign exchange markets. The events of recent months confirmed that it is difficult, in a situation of complete capital mobility, to maintain a stable framework of exchange rates if the monetary policies of individual countries diverge.

A system of exchange rates that permitted small realignments at more frequent intervals might perhaps prevent periods of tension due to accumulated losses or gains in competitiveness, but there is a danger that it would delay the convergence of inflation rates, making it more difficult for divergent countries to meet the conditions for participation in the Economic and Monetary Union. Cohesion within the EMS will strengthen if moves towards European Union are intensified and if ratification of the Maastricht Treaty is completed swiftly. With this in mind, monetary policy coordination must be made more effective; one way in which it could be improved would be to make institutional changes that brought forward, in the spirit of Maastricht, some of the decision-making mechanisms foreseen for the third phase of Monetary Union.

The Italian economy

The difficulties that emerged in the financial and foreign exchange markets at the beginning of June, their accentuation in August and the currency crisis they triggered in mid-September struck the Italian economy at a time when the imbalances in the economy were slowly beginning to diminish; inflation had been falling since the turn of the year, cost and price differentials with the leading industrial countries were declining and the trade balance was showing a slight improvement. An important agreement on labour costs was signed at the end of June by both sides of industry and the Government. Measures were also taken in July to counter the problems in the public finances; a commitment to tackle the structural imbalances in the budget was beginning to take shape. The decisions, which had been postponed for years and delayed still further during the crucial months and weeks in which the crisis was brewing, did not prevent the erosion of confidence among savers and the difficulties of the EMS from leading to the devaluation of the lira and, immediately afterwards, the suspension of Italy's intervention obligations.

The depreciation of our currency on international markets is not a solution to the problems of restoring the health of the Italian economy; it makes stringent budgetary and incomes policies, coupled with measures to stimulate competition, even more necessary and urgent. The conditions already exist for Italy to emerge from its present difficulties with its productive economy in even better shape. However, it is essential that the confidence of savers and of the international markets be restored quickly. If this does not happen, the crisis will deepen and its effects will spread rapidly to the real economy.

Cyclical conditions are not favourable. The international recovery is hanging fire, and domestic demand is slowing down, especially that for capital goods. The forecast results for 1992, which were published in September in the Government's Forecasting and Planning Report, show GDP increasing by 1.2 per cent, slightly slower than the rate of growth in 1991 (Table 22). Economic growth in Italy is below the average for the industrial countries; the difference can be attributed to the weaker performance of export markets (especially Germany), the fact that the need for remedial measures prevents fiscal policy from performing a countercyclical function, the deterioration in confidence, and the consequent increase in interest rates from mid-year onwards.

By comparison with 1991, the proportion of income channeled into exports has probably increased compared with that serving to meet domestic demand. After more or less stagnating for a year, export growth appears to have been sustained by a substantial change in the geographical composition of trade; until July, exports to OECD countries, which account for more than three quarters of Italy's total exports, increased by little more than 1 trillion lire in nominal terms, while those to other areas rose by more than 5 trillion lire.

The growth in domestic demand is expected to slow down by 1 percentage point compared with 1991, when demand grew by 2.4 per cent. The main factor is the deceleration in household consumption, which occurred mainly in the second half of the year and affected primarily durable goods. Nevertheless, consumption is thought to have continued to increase more rapidly than disposable incomes, leading to a further reduction in the propensity to save. More recent indicators suggest that this tendency is coming to an end, however; the decline in confidence and fears of illiquidity and capital losses on financial assets may induce households to increase precautionary savings sharply as a proportion of total income. The deterioration in the economic climate, the low level of capacity utilization and financing difficulties make it impossible to foresee an imminent and significant reversal of the decline in gross fixed investment recorded in the first half of the year.

Table 22

Selected Italian macroeconomic variables

	1991	1992 (1)	1993 (1)
	(percentage changes)		
Real variables			
GDP	1.4	1.2	1.5
Domestic demand	2.2	1.3	1.0
Imports (2)	2.9	4.0	3.6
Exports (2)	−0.8	4.3	6.5
Prices			
GDP deflator	7.3	5.6	4.2
Private consumption deflator	6.7	5.3	4.5
Terms of trade (2)	2.8	0.8	0.0
	(percentages)		
Financial balances/GDP			
State sector borrowing requirement (net of settlements of pasts debts)	10.7	10.2	9.3
External current account balance	−1.8	−1.9	−1.3

(1) Estimates and forecasts from *Relazione previsionale e programmatica* for 1993. – (2) National accounts data.

Employment will remain virtually static over the year as a whole, after growing by around 1 per cent in each of the last two years; labour shedding by industry has accelerated and spread to clerical staff, while recruitment in the services sector decreased further.

Until September a further substantial decline in inflation had seemed likely. The rise in the cost-of-living index had slowed down from 6.1 per cent in January to 5.2 per cent in September, thanks partly to the containment of labour costs during the year and the large depreciation of the dollar from the second quarter onwards; in industry, the moderate rise in unit variable costs (2.2 per cent in the first half by comparison with the same period of 1991) had halted the narrowing of profit margins that had begun three years earlier. The agreement signed by the two sides of industry and the Government on 31 July provides for the rise in private sector labour costs to be brought down rapidly towards the rates prevailing in the leading European countries. The agreement, together with stagnation in raw materials prices and exchange rate stability, reinforced the prediction that inflation would come down towards 4.5 per cent by the end of the year.

The devaluation of the lira did not prevent inflation declining further in October to 5 per cent; even taking account of the normal lag in the adjustment of prices, this figure indicates that in present circumstances the price effect of the exchange rate change may be small.

When it updated its economic forecasts at the end of September, the Government raised its prediction of the average inflation rate for 1993 by 1 point to 4.5 per cent. This objective can be achieved only if expectations, wage and price behaviour and economic policy measures are appropriate. In countries where nominal wages are not indexed, where domestic demand is depressed and monetary management firm, devaluation has had a negligible impact on prices. Recent examples are provided by highly open economies such as Finland, where inflation accelerated from 3.3 per cent at the time of the 10 per cent devaluation in September 1991 to 4 per cent in December but then fell to below 3 per cent as early as the following January, and Canada, where in the last twelve months inflation has fallen from 5.4 to 1.2 per cent despite a nominal effective depreciation of the Canadian dollar by 9 per cent.

The budget for 1993

According to the official estimates published in the Government's Forecasting and Planning Report, the budget proposals for 1993 should reduce the public sector borrowing requirement by around 93 trillion lire or 5.8 per cent of GDP. The calculation refers to the measures introduced by Decree Law no. 384 of 19 September 1992, Decree Law no. 394 of 30 September 1992, the enabling law on the reform of the health service, pensions, public employment and local finances, and the Finance Bill and its accompanying measures. The Report divides the reduction between expenditure savings amounting to 43.5 trillion and revenue increases totaling 42.5 trillion, with the remaining 7 trillion coming from privatizations to be effected in accordance with Decree Law no. 333 of 11 July 1992.

Decree Law 384/1992 was approved by the Chamber of Deputies on 23 October. The substantial amendments introduced, especially as regards pensions and health services, did not attenuate the total impact of the measures; they nonetheless reduced the planned expenditure savings by around 4 trillion and increased the additional revenue by a similar amount.

Revenue

Taxes. *– The measures accompanying the Finance Bill provide for state sector receipts to increase by 34 trillion lire (almost entirely from direct taxes) and those of the local authorities by 12 trillion; the latter amount includes around 3.5 trillion of taxes reallocated to the regional authorities, so that the net effect on the receipts of the public sector is around 8.5 trillion.*

Part of the package has already been introduced by Decree Laws 384/1992 and 394/1992, which primarily concern direct taxes attributed to the state sector. Among its other provisions, Decree Law 384/1992 reinstated, with effect from 1 January 1992, the marginal rates of personal income tax for incomes of more than 30 million lire that were in force in 1989 (when automatic compensation for fiscal drag was introduced). It also provides for the automatic compensation for fiscal drag to be restricted to the determination of tax credits and the related income limits on entitlement. According to official estimates, these changes should yield around 8.3 trillion lire (of which 6.1 trillion from the revision of the income brackets and 2.2 trillion from the limits on the compensation for fiscal drag).

The same decree transforms several tax deductions (medical expenses, interest payments on mortgages, insurance premiums and voluntary social security contributions) into tax credits. These are to be calculated by

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

Increase in revenue	**49,500**
Tax revenue	**42,500**
Decree Law 384/1992	25,100
Revision of personal income tax brackets	6,100
Limitation of compensation for fiscal drag	2,200
Transformation of tax deductions into tax credits	1,500
Non-deductibility of local income tax	7,000
Imputed self-employment and business income coefficients	7,000
Prorogation of payment of 100% of withholding tax on interest from bank deposits	1,300
Decree Law 394/1992	5,000
Special tax on firms' net assets	5,000
Enabling Law of 22.10.1992 (2)	8,500
New municipal tax on buildings (3)	8,000
Other new local taxes	500
Other measures (to be issued)	4,000
Revision of exemptions and concessions	1,500
Reopening of condonation scheme	2,500
Privatizations	7,000
Decree Law 333/1992 (ratified by Law 359/1992)	7,000
Decrease in expenditure	43,500
Decree Law 384/1992	29,100
Wages and salaries	9,900
Health services	5,500
Social security	13,700
Finance Bill (4)	14,500
Reduction in transfers to public entities and capital expenditure	14,500
Total	**93,000**

(1) Official estimates derived from the *Relazione previsionale e programmatica* for 1993. The amendments to Decree Law 384/1992 adopted by the Chamber of Deputies are not taken into consideration; they have no effect on the overall size of the budget. – (2) The figure refers to the impact on public sector revenue, whereas the *Relazione previsionale e programmatica* refers to the increase in local authority revenue, which is officially estimated at 12 trillion; however, the latter figure includes around 3.5 trillion reallocated from central to regional jurisdiction. – (3) Net of the loss in revenue due to income from buildings being excluded from taxable income for the purposes of local income tax (around 3.5 trillion lire). – (4) Includes 3.5 trillion lire of reductions in transfers to local entities provided for in the enabling law of 22 October 1992.

applying a maximum marginal rate of 27 per cent – equal to that for the third income bracket – to the expenses previously taken as tax deductions. This should produce an estimated 1.5 trillion of additional revenue. From 1993 onwards local income tax will be completely non-deductible for the purposes of personal and corporate income tax (it is currently deductible up to 75 per cent). The resulting increase in receipts is estimated at 7 trillion. The combined statutory rate of local and corporate income tax will rise from 47.826 to 52.2 per cent.

An additional 7 trillion lire should be produced by the changes in determining the "presumptive coefficients" that are used to calculate imputed income from self-employment and small business; in particular, the higher amount will be adopted and notified in the case where a taxpayer declares an income that is lower than the amount of the "direct labour contribution" fixed by the Ministry of Finance on the basis of the activity the taxpayer performs. Finally, for 1992 a special tax is introduced on ownership of certain luxury goods (boats, airplanes and high-powered cars and motorcycles).

Decree Law 394/1992 introduces a 0.75 per cent tax on the net assets of firms for the three years from 1992 to 1994. This measure is expected to yield 5 trillion lire in 1993.

A considerable part of the budgetary package is contained in a series of measures still before Parliament and in the enabling law that Parliament approved on 22 October. Local authority receipts should increase as a result of the revision of the tax treatment of buildings and the transfer of the motor vehicle tax from central to regional jurisdiction. The net effect on the public sector borrowing requirement should amount to around 8.5 trillion lire.

Parliament is also examining the report of the committee for the revision of tax exemptions and concessions. The report, drawn up pursuant to Law 408/1990, lists the relevant current provisions and sets forth proposals for abrogation or reduction that should increase revenue by 1.5 trillion. Lastly, provision has been made for the tax condonation to be reopened, which is expected to yield 2.5 trillion.

Expenditure

Wages and salaries. *– Decree Law 384/1992 sets limits on staff turnover, suspends contract renewals to 31 December 1993, freezes wages, salaries and bonuses at the 1991 level except for a rise of 20,000 lire a month in 1993, and suspends the economic effects of promotions and the increases foreseen for senior civil servants. These measures should generate savings of around 10 trillion lire for the public sector, limiting the growth in expenditure to slightly more than 1 per cent.*

Health services *– The original text of Decree Law 384/1992 envisaged the suspension of public health care, except hospital care, for members of households with a taxable income of more than 40 trillion lire. In ratifying the Decree, the Chamber of Deputies has fixed the income limit on a sliding scale based on household size and, in place of the suspension of health care, has increased users' fees and contribution rates and set an annual per capita fee of 85,000 lire for basic medical care. The Chamber of Deputies has confirmed the introduction of a ceiling on spending for health services provided to individuals exempted from sharing the cost of services (the ceiling has not yet been defined).*

Social security. *– Decree Law 384/1992 suspends all automatic adjustments to pensions and to work-related disability and illness annuities to 31 December 1993. Beneficiaries of pensions will not receive the cost-of-living adjustment foreseen for November 1992 (already suspended by Decree Law 333/1992 of 11 July) and the adjustment to real wage increases foreseen for January 1993 (which would have been on the order of 2 percentage points). In ratifying the Decree, the Chamber of Deputies has excluded the adjustments linked to the target rate of inflation for 1993 from the suspension; these adjustments will be delayed by one month and will amount to 1.8 per cent in June and 1.7 per cent in December. The same measure also suspends, until 31 December 1993, the provisions that permit workers to retire on a seniority pension before reaching the age of eligibility for an old-age pension; the suspension applies to all private and public sector workers except those with at least 40 years of contributions and those involved in early retirement programmes linked with structural redundancies. To offset part of the cost of its amendments to the Decree, the Chamber of Deputies has introduced increases in the contribution rates for employees and self-employed persons in the upper income brackets.*

Other expenditure. *– The Finance Bill freezes next year's transfers to public entities and capital expenditure at their nominal levels in 1992, with savings estimated at 11 trillion lire. The Chamber of Deputies has reduced the appropriations for developing countries and the share of repayment of the National Electricity Agency's borrowings that is charged to the budget.*

The prices of some imports adjust rapidly and almost completely to exchange rate changes, namely raw materials whose prices are determined in international markets and those manufactures for which demand is inflexible as they cannot easily be replaced by home-produced goods. In the case of other products, foreign firms exporting to Italy set their pricing policies according to the risk of losing market share to domestic producers. If all import prices adjusted completely, the eventual impact on domestic prices would be equal to around 16 per cent of the devaluation.

This estimate can be derived both from an analysis of sectoral inputs and outputs and from the fact that imports are equivalent to 16 per cent of total resources (GDP plus imports). If only raw materials prices reflected the depreciation of the currency, the impact would be reduced to about 4 per cent of the amount of the devaluation; for example, an effective depreciation on the order of that which occurred between the end of August and 26 October would raise price levels by 0.5 percentage points. Further price effects would be generated if domestic firms widened their profit margins instead of taking the opportunity to increase their market share and if income earners tried to avoid the reduction in purchasing power implicit in the decline in the external value of the currency. If that were to happen, there would be a serious danger of triggering an inflationary spiral that would expose the currency to new external pressure.

The effects of a devaluation on real variables take longer to work through than its impact on prices and the two are inversely related in terms of intensity. The main effect is a tendency to increase the proportion of total demand expended on domestic products, thus leading to an improvement in the trade balance after an initial phase in which the deterioration in the terms of trade is the predominant factor. The effect on economic activity and employment should be positive, even if the greater stimulus from abroad is partly offset by a contraction in domestic demand associated with the loss on the terms of trade and the restrictive measures needed to restore the internal and external equilibrium of the economy.

According to the Government's forecasts for 1993, the growth in the volume of exports should accelerate to 6.5 per cent and that in imports should slow down slightly to 3.6 per cent. GDP is expected to rise by 1.5 per cent, a few tenths of a point more than this year; growth will be held back mainly by a sharp deceleration in households' domestic consumption from an estimated rate of 1.8 per cent this year to 0.9 per cent. The trend deterioration in the balance of payments, which has moved from equilibrium in 1987 to a deficit of around 30 trillion lire this year, or slightly less than 2 per cent of GDP, is expected to come to an end.

Even if the international organizations' forecasts of a recovery in the world economy are realized, the growth in Italy's main export markets, particularly the other European Community countries, will probably be modest, and less than the expansion in world trade.

The ability of Italian exporters to continue to increase the proportion of exports going to more dynamic regions – the OPEC countries, Asia and Latin America – will therefore be decisive. Econometric estimates show that foreign demand for Italian exports and domestic demand for imports are highly sensitive to changes in relative prices; in manufacturing, a competitive gain of 1 per cent is normally followed in the first year by an increase of 0.8 per cent in the volume of exports and an equal reduction in the volume of imports. There are therefore good grounds for expecting the devaluation to be followed by an expansion in the volume of exports, even in a lacklustre international economic climate, and a contraction in imports.

The changes that have occurred in Italy's competitive position can be quantified by noting that between 1987 and August 1992 the lira appreciated by 5.7 per cent in real effective terms on the basis of the producer prices of manufactures. The appreciation is eliminated if one takes the average exchange rates for September, with the Deutschemark at 807 lire and the dollar at 1,168 lire, and gives way to a substantial depreciation of 8.9 per cent on the basis of the rates for the first twenty days of October, with the mark at 891 and the dollar at 1,293.

The trade balance will benefit from the containment of domestic demand. A number of factors, as well as an analysis of the existing trends, point to this conclusion. The restrictive effect of the budget measures will be small. According to official estimates, the state sector deficit will decline from 155 to 150 trillion lire between 1992 and 1993, implying a reduction of about 1 point in relation to GDP; the overall size of the deficit is less important for assessing its restrictive effect than the changes in its composition, especially the replacement of temporary measures by measures that will have a permanent effect on budgetary trends and hence, of necessity, on disposable incomes. As stated above, households' consumption is likely to be affected by the deterioration in the terms of trade. Domestic demand will be squeezed in any case, not only by the lagged effects of the exceptional increase in interest rates during the summer but also by the anti-inflationary stance of monetary policy.

The Government's forecasts are based on the assumption that the world economy will finally begin to recover, albeit weakly, and, above all, on the agreement on wage restraint concluded in July. They postulate a rapid restoration of confidence and, as a consequence, a return to normality as regards interest rates, financial markets and exchange rates. To achieve this, the measures to reduce the budget deficit must be implemented.

When it updated the Economic and Financial Planning Document to take account of the changed macroeconomic situation, the Government set a target of 50 trillion lire for the state sector surplus net of interest payments in 1993, in place of the previous target of 40 trillion. The total borrowing requirement should not exceed 150 trillion lire, assuming interest payments of 200 trillion. The assumption underlying the latter estimate, which the Document describes as particularly uncertain, is that interest rates on government securities will fall significantly in the next few months towards the levels prevailing in the other leading EC countries. The Document states that the reduction in interest rates by the amount envisaged depends on rapid approval of the Finance Law and the consequent possibility of a credible return to the European Monetary System, thereby restoring Italy's credit standing.

The public finance measures comprise several pieces of legislation: Decree Law 384 of 19 September, which introduced many of the measures the Government had planned for 1993 and was approved by the Chamber of Deputies on 23 October with amendments that did not affect its scope; Decree Law 394 of 30 September, which imposed a special tax on companies' net assets; the Finance Bill and accompanying legislation, which are currently before Parliament; and the Enabling Law approved by Parliament on 22 October, which links the fiscal measures for 1993 with structural reforms that will affect the main areas of expenditure for many years to come. These will be defined in implementing decrees. The object of the package of measures is to reduce spending and increase revenue by a total of 93 trillion lire (equal to 5.8 per cent of GDP) compared with the figure on a current programmes basis. The scale and structural content of the remedial action mark it out from those implemented in the past. With reference to the public sector, where the nature of the measures and the objectives of budgetary policy can be seen more clearly and completely, the increase in revenue approved by the Chamber of Deputies should amount to 47 trillion lire and the reduction in expenditure to 39 trillion; the privatization of state assets should produce a further 7 trillion lire.

In accordance with the indications contained in the Economic and Financial Planning Document, the original guidelines set out in the Enabling Bill were made more stringent, particularly as regards pensions. The raising of the age for entitlement to retirement pensions to 65 years for men and 60 years for women was made compulsory and will be implemented more rapidly than originally proposed; the period for calculating the pensions of workers who have not yet completed 15 years of contributions will be gradually extended, until it covers the entire working life for new entrants. Especially in fields other than pensions, the ability of the measures to have a significant and lasting impact on the public finances will depend to a large extent on the legislative decrees and the manner in which they are implemented.

5

The enabling law on health services, public employment, social security and local authority finances

On 22 October Parliament approved the enabling bill the Government had lodged in July when it issued Decree Law no. 333 with a package of supplementary budget measures. The law authorizes the Government to issue legislative decrees aimed at rationalizing and reforming the statutory provisions governing health services, public employment, pensions and local authority finances within pre-determined time limits. These structural measures should considerably slow the growth in expenditure in the medium term.

Health services. *– The enabling law provides for a set of measures to make the use of National Health Service resources more efficient, by reshaping the organization and financial structure of the NHS and incorporating various aspects of the reform bill that the Executive had presented in the previous legislature.*

The Government is delegated to revise the powers of the regional authorities and the Ministry of Health, with the former being attributed a larger role in planning and organizing health services. The number of local health units will be reduced and the units redefined as "intraregional agencies" managed by a director general, with both a board of auditors and a board of representatives of medical and other staff. Highly specialized regional hospitals will be made operationally autonomous; local health units' other facilities will be granted forms of financial autonomy.

As regards the financing of public health services, the enabling law provides for changes in the system of health charges and contributions; in particular, it establishes a uniform schedule of contributions for all categories of workers. The Government is also delegated to set minimum levels of health service provision on which to base transfers to the regions and to make the regional authorities responsible for financing the cost of providing services in excess of such levels, either by applying a surcharge to the health contribution rate, within pre-determined limits, or by increasing the rates on taxes attributable to them by up to 75 per cent. The regions will also have a role in determining how exemptions from health charges are to work. In addition, the law provides for the promotion of initiatives aimed at phasing out the system of contracts with private health service providers and introducing forms of "indirect" assistance (post-treatment reimbursement).

Public employment. *– The law takes over part of two bills presented to Parliament in the previous legislature on public sector employment and wage bargaining. Public employment is gradually to be made subject to the Civil Code and will be governed by individual and collective contracts; litigation involving public employees will progressively be brought within the jurisdiction of ordinary courts. These provisions do not apply to magistrates, government lawyers, members of the armed forces and the police, diplomatic and prefectural personnel, or directors general and holders of equivalent positions. In addition, standards of trade union representativeness will be specified and, on the government side, an independent body set up to conduct collective bargaining. The selection of public managers, the tasks assigned to them and the evaluation of their performance will be revised.*

The law also envisages more specific measures to ensure greater flexibility in the use of staff. In particular, it introduces the possibility of correcting wage and salary overshoots beyond the predetermined limits by extending the term of contracts or by suspending their application in part or in full. Also contemplated are: a review of public employees' bonuses in relation to the objectives assigned; the possibility of temporarily utilizing staff for tasks at grades higher or lower than their own; the redetermination of the maximum limits for paid and unpaid union leave; greater recourse to internal mobility to fill vacancies, partly by putting excess workers who refuse new assignments on transfer lists; and the introduction of centralized pre-screening for certain types of position. Finally, several provisions regarding the school system are designed to ensure that the size of the teaching staff reflects the reduction in school enrolments.

Social security. *– The Government is delegated to issue measures that will stabilize the ratio of social security spending to GDP at the 1992 level. The measures will also be designed to create uniform pension benefits for all categories and encourage the establishment of supplementary private pension plans. The main features of the reform of the public pension system are as follows: a) the age of retirement will gradually, over ten years, be raised to 60 for women and 65 for men beginning in 1994 (it now stands at 55 for women and 60 for men in private sector employment). Pensions will be based on a higher percentage of pensionable earnings for women and, in the transitional phase, for men of less than 65 who continue to work after qualifying for retirement, (the law does not indicate the size of the increase); b) the reference period for calculating pensionable earnings will be lengthened from 5 to 10 years, increasing by one year every two years and past earnings will be revalued at a rate equal to the rise in the cost of living plus 1 percentage point. For workers with less than 15 years of contributions, the reference period is extended further (and for new registrants will cover the entire working life); c) the minimum number of years of contribution required for entitlement to an old-age pension will be raised from 15 to 20, with an increase of one year every two calendar years,* *except for those who have already reached the minimum; d) the 35-year requirement now in effect for entitlement to a seniority pension from INPS under its general compulsory scheme will be extended to all workers. The rule does not apply either to those who have already reached the minimum currently required under a sectoral scheme or to men and women who are respectively at least 57 and 52 years old. The 35-year requirement is immediately applicable to all covered workers with less than 8 full years of contributions; for workers with more than this, the increase in the present minimum requirement will be related to the number of years needed to reach it.*

The law also provides for the means testing for subminimum pensions and social pensions to be revised, entitlement to old-age pensions to be made dependent on the cessation of employment, and the current rules limiting the cumulation of pension benefits with earned income to be extended to all public and private sector workers and all incomes from employment and self-employment. By contrast, the rules governing multiple pensions will not be changed. Provision is made for a reform of the indexation of pensions that, while taking account of the mechanism applicable to employees, will nonetheless safeguard pensioners' purchasing power.

The law delegates the Government to restructure the financing of the pension system and to set contribution rates at levels that will ensure pension funds' financial equilibrium. It also provides for the constitution, management and oversight of voluntary private pension plans to supplement the compulsory public system. These can be managed directly by the categories concerned or entrusted to public social security agencies, insurance companies, securities firms or other public or private operators. It is intended that they should operate on a funded basis and benefit from tax incentives.

***Local authority finances.** – The law provides for local authorities' powers of taxation to be broadened and lays down stringent criteria for other forms of local financing.*

The laws' provisions in this field are based in part on a bill the Executive presented during the previous legislature. In particular, the law introduces a municipal tax on all types of buildings with effect from 1993. The municipalities will set the rates between 0.4 and 0.6 per cent of the rateable value of buildings and the commercial value of building land. The tax will not be deductible for the purposes of determining taxable income. For primary residences, the liability will be reduced by 180,000 lire and will be deductible from personal income tax up to 120,000 lire.

In conjunction with the introduction of the municipal tax on buildings, the law provides for the reduction or repeal of a number of property taxes. Income from buildings, farmland and building land will no longer be subject to local income tax. In addition, the capital gains tax on property will be abolished; however, capital gains accrued as of 31 December 1992 will be taxed when realized during the next ten years and the proceeds attributed entirely to the central government.

From 1994 on municipalities will also be able to introduce a personal income tax surcharge. This will be based on the previous years' income tax receipts of the central government and levied at pre-determined rates (starting from 1 per cent and rising gradually with increments of 1 percentage point per year up to a maximum of 4 per cent). From 1993 on the regions will receive all the proceeds of the motor vehicle tax. In addition, the law provides for the regional and provincial authorities to levy a tax on the net price of gas and electricity for home use, at rates that can vary proportionally or progressively with consumption.

As regards other forms of financing, from 1994 on the resources the central government transfers to the local authorities will have to be consistent with the guidelines for the public finances and the growth in state sector expenditure indicated in the Government's Economic and Financial Planning Document. In 1993, ordinary and equalizing transfers to the municipalities, provinces and mountain districts will remain at the level recorded in 1992 and any increases will have to be provided for in the Finance Law. In addition, municipalities are required to pay the tax authorities an amount equal to the receipts of the municipal tax on buildings, calculated at a rate of 0.4 per cent and net of the loss of revenue from the capital gains of tax on property (to be determined by averaging the receipts for the three years from 1990 to 1992); from 1994 on, the foregoing amount will be withheld directly from current transfers. The latter must nonetheless be sufficient to finance the services judged to be "essential". The allocation of transfers will have to comply with objective criteria of fairness, taking account of population size and territorial, social and economic conditions (as laid down in Law no. 142 of 8 June 1990).

The law permits local authorities to raise loan finance only in the case of fixed price "turnkey" projects. In addition, the related financing plan (provided for in Decree Law no. 65 of 2 March 1989) must ensure the economic and financial soundness of investment projects and subsequent operations. Lastly, all the existing restrictions on staffing levels, recruitment and the proportion of the cost of public services local authorities must meet will be eliminated after the transitional period, except in the case of local authorities in serious financial difficulty.

The Parliamentary resolution approving the Economic and Financial Planning Document commits the Government to take any corrective measures that prove necessary to comply with the limits set. For the first time, the objectives the Government is committed to achieving include reference to a budget surplus net of interest payments, which is required to be at least 50 trillion lire; in addition, the resolution stipulates that any amendments must be quantified in technical reports presented by the Treasury Minister, and may not alter the overall scale of the adjustments laid down by the Government.

Apart from the undoubtedly important quantitative aspects of the adjustment, the success of the budgetary measures will be judged in terms of their ability to restore confidence, to persuade savers and the financial markets that the return to sound public finances has begun and is irreversible.

At the beginning of October the Italian Government applied to the European Community for a loan under the medium-term balance-of-payments support facility. At the request of the Italian authorities, the loan will be activated after approval of the budgetary measures. The release of the various tranches of the loan will be conditional on achieving certain objectives that are still being negotiated; those for the public finances will play a central role. During 1993 it will also be necessary to monitor the public finances so that any corrections necessary can be made promptly.

According to the medium-term plan formulated in July, the state sector surplus net of interest payments should increase further, from 3 per cent of GDP in 1993 to 4 per cent in 1994 and 5.9 per cent in 1995. The ratio of public debt to GDP should stabilize in 1994 at around 114 per cent and diminish thereafter. This projection depends on developments in the world economy, GDP and interest rates. Nevertheless, achieving a primary surplus will be sufficient to reverse the increase in the debt/GDP ratio, on the assumption that confidence revives and the differential between interest rates on the public debt and the rate of economic growth returns close enough to the level of the past; measured in terms of the gross average yield on Treasury bills, the differential averaged 1.8 percentage points over the last ten years and 2.2 points over the last five.

The scale of the adjustment that lies ahead can be gauged in the light of the developments of recent years. The ratio of the budget deficit net of interest payments to GDP decreased by 3.2 points between 1987 and 1991, and the improvement should rise to 4.8 points in 1992 and 6.8 in 1993. The Government planning document foresees a further, albeit smaller, improvement of about 3 points in the subsequent two years. Although the budgetary measures will not be easy to implement, the difficulties should be less than those encountered hitherto, given the structural nature of some of the steps taken this year.

The aim of monetary policy will be to provide a stable frame of reference that will shape expectations and conduct so as to limit the direct impact of the devaluation on prices and prevent the rise in the cost of imports from triggering a wage/price spiral. With the exchange rate weakened as a means of exerting a direct restrictive effect, the money supply growth target takes on greater importance for liquidity management and interest rate policy in the short term. Meeting the target will make it easier to set the lira's new EMS central rate at a level consistent with the anti-inflationary stance of monetary policy.

The monetary objective for the current year will be to keep the growth in M2 between 5 and 7 per cent, a target range that was set in September 1991 and has since remained unchanged.

The annual rate of growth in M2 in relation to the average for the fourth quarter of 1991 fell from a peak of 9.5 per cent in the second quarter to 5.3 per cent in the third. The slowdown is attributable mainly to the rise in interest rates from June onwards; it may also have reflected fears generated by the introduction of a wealth tax on bank deposits in July and the general climate of uncertainty that has hung over the Italian economy in recent months.

The instability affecting the markets in government securities and foreign exchange was responsible for the sharp rise in external assets and the shift in the composition of domestic assets towards cash, securities repurchase agreements with banks and, among government securities, towards short maturities. In 1992 the growth in domestic financial assets is likely to be more than 3 percentage points less than in 1991 (Table 23).

The money supply growth target for 1992 is compatible with a fall in interest rates from the exceptionally high levels reached in the summer. The easing of tension in the financial and foreign exchange markets recently permitted a reduction in official rates. The Bank of Italy reduced the premium on fixed-term advances by half a percentage point on 8 October and official interest rates by 1 point on 26 October. The average net yield on Treasury bills, which had risen to 15.65 per cent at the end of September, declined to 12.87 per cent at the auction a month later. The reduction in the rates on discounts and advances and the fall in money market rates are creating the conditions for a decline in bank interest rates; lending rates, which responded very rapidly when rates were rising, did not begin to come down until the end of the month.

As well as reducing official interest rates, the Bank of Italy enjoined credit institutions to curb the growth in lira lending in order to make it easier to meet the M2 growth target and to prevent the expansion in money and credit from allowing scope for inflation to take hold. The quantitative guideline, which implies an expansion of 9 per cent in bank lending to residents in the twelve months ending in December 1992, was accompanied by a call for lending institutions to examine loan applications carefully in order to give priority to lending for productive purposes. Two other measures were taken at the same time; one aims at integrating the domestic interbank market more closely with the Eurolira market and accelerating the transmission of interest rate stimuli, while the other widens the range of instruments for regulating liquidity by introducing foreign exchange repurchase agreements.

In 1992 the growth in total lending to the non-state sector should be some 3 percentage points less than last year; on the assumption that the state sector borrowing requirement amounts to 155 trillion lire, total credit will increase by around 11 per cent. The slowdown in the growth of financial assets is likely to be more pronounced, and the difference will be reflected in the balance of payments.

Table 23

Financial flows

(trillions of lire and percentages)

	Gross domestic product		State sector borrowing requirement (1)		Credit to the non-state sector			Total credit			Non-state sector domestic financial assets (2)			Money (M2)		
	Amount	% change	Total (A)	% of GDP	Total (B)	% change	% of GDP	(A)+(B)	% change	% of GDP	Amount	% change	% of GDP (3)	Amount	% change (4)	% of GDP (3)
1983	633.4	16.2	88.2	13.9	37.2	11.7	5.9	125.5	19.0	19.8	111.6	20.4	104.2	50.5	13.3	67.7
1984	725.8	14.6	95.7	13.2	50.4	13.8	6.9	146.1	18.3	20.1	128.3	19.4	108.8	49.7	11.6	66.0
1985	810.6	11.7	112.1	13.8	48.6	11.4	6.0	160.8	16.8	19.8	137.1	17.3	114.9	50.8	10.6	65.3
1986	899.9	11.0	110.2	12.2	49.1	10.6	5.5	159.3	14.2	17.7	153.1	16.4	121.6	45.3	8.5	63.9
1987	983.8	9.3	113.8	11.6	49.8	9.9	5.1	163.6	12.8	16.6	157.7	14.4	126.9	42.7	7.4	62.8
1988	1,091.8	11.0	124.9	11.4	80.7	14.5	7.4	205.6	14.3	18.8	182.7	14.6	131.6	46.3	7.5	60.8
1989 (5)	1,193.5	9.3	133.4	11.2	125.3	19.8	10.5	258.7	15.7	21.7	204.8	14.0	138.3	74.5	9.1	61.9
1990 (5)	1,311.6	9.9	140.7	10.7	138.0	18.1	10.5	278.7	14.6	21.2	195.3	11.7	140.9	64.1	9.7	61.2
1991	1,427.3	8.8	152.3	10.7	122.4	13.6	8.6	274.7	12.5	19.2	202.2	10.9	144.6	75.8	9.0	61.5
1992 (6)	1,525.6	6.9	155.0	10.2	107.1	10.5	7.0	262.1	10.6	17.2	150.6	7.3	145.1	61.5	7.0	61.6

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

(1) Excludes settlements of past debts in securities. – (2) Excludes shares. – (3) End-of-period stocks. – (4) From 1990 onwards the rates of growth in the money supply have been calculated on the basis of the December average of daily data. – (5) The rate of growth in the money supply has been corrected for the effects of strikes in the banking system in December 1989. – (6) Estimates.

The monetary and credit measures adopted on 23 October

When the Bank of Italy reduced both the discount rate and the rate on fixed-term advances by one point on 23 October, it also began monitoring the growth in credit institutions' lira lending. In addition, the aggregate subject to the reserve requirement was modified to exclude the lira deposits of non-resident banks, except those of Italian banks' foreign branches. Finally, the central bank launched a new type of repurchase agreement based on foreign exchange rather than on government securities.

The Bank of Italy's monitoring scheme included calling on banks and special credit institutions to keep the growth in their lira lending within certain limits for the period between November 1992 and March 1993. The aggregate being monitored comprises lira loans, securities repurchase agreements with customers and lending to residents by Italian credit institutions' foreign subsidiaries. Separately, the Bank will also monitor Italian credit institutions' total lira assets in respect of non-resident counterparties (loans, securities, interbank positions, etc.). The aim of the scheme is to prevent lending and the money supply from accelerating as money market rates come down and creating conditions for a rise in prices beyond the impact effect of the devaluation of the lira.

The limits to expansion banks have been asked to respect are designed to reduce the twelve-month rate of growth in lira lending to residents by banks' domestic and foreign branches from 9.7 per cent in September to around 8 per cent in the first quarter of 1993; the twelve-month rate of growth in the monitored aggregate should slow from 12.5 to around 7.4 per cent between September and March. Over the same period, the twelve-month rate of growth in the special credit institutions' lira lending should fall from 12 per cent to just above 8 per cent. Italian credit institutions' assets vis-à-vis non-residents are expected to decline by roughly 4.5 trillion lire between November and next March.

The abolition of the reserve requirement on the lira deposits of foreign banks, with the exception of funds raised from Italian banks' foreign branches, will help to create a closer link between the domestic interbank market and the Eurolira market. The May 1991 change in the system of compulsory reserves had eliminated the reserve requirement on foreign currency deposits but not on Eurolira deposits. The existence of a reserve charge on non-residents' lira deposits discouraged capital inflows from the Eurolira market to the domestic money market, creating discrepancies and asymmetries between interest rates in the two markets. The measure adopted on 23 October will foster greater liquidity in a number of hitherto lightly-traded maturities in the domestic interbank market, making the corresponding rates more significant.

The Bank of Italy's new repos are concluded in the principal international currencies, with preference being given to the dollar and the Deutschemark; the currency of denomination is announced at the time the Bank offers the contracts. The instrument can be used to create or absorb monetary base according to market conditions. Where the objective is to supply liquidity, the central bank buys foreign currency spot, at an exchange rate that is in line with market rates and announced when the operation is offered, and simultaneously fixes the maturity of the contract. The forward price is determined by competitive auction. As with repos on government securities, the Bank of Italy reserves the right to set a stop-out price.

Foreign exchange repos widen the range of the monetary policy instruments available to the central bank and enable banks to manage their liquidity more efficiently. They are especially useful when shortages of government securities hinder traditional repos operations; they also influence the official reserves, albeit temporarily. Finally, the new instrument promotes the harmonization of monetary policy procedures within the Community, where some member states now use currency swaps.

The target range for the growth in M2 has been maintained at 5-7 per cent for 1993. This is a demanding objective, which has been chosen in view of the need to avoid encouraging inflationary pressures that would cause the growth in nominal GDP to exceed the guideline indicated in the Government's planning framework. The division of the growth in the money supply between real GDP, prices and the velocity of circulation of money will depend on the behaviour of income earners and the stringency of fiscal policy.

On the assumption that the state sector borrowing requirement amounts to 150 trillion lire and that lending to the non-state sector continues to slow down, total credit expansion should decline by 1 percentage point. As confidence returns, investment in foreign financial assets should slow down, leading to more rapid growth in total domestic financial assets. Elimination of the disparity between the rate of growth of credit and that of financial assets would be consistent with a return to equilibrium in the overall balance of payments.

Based on information available at 28 October.

Articles

The Bank of Italy's real effective exchange rate indicators

The Bank of Italy compiles and publishes various indicators of the real effective exchange rates of Italy and the other leading industrial countries. This article describes their main features and compares them with those of the indicators published by the EC Commission, the OECD and the IMF.[1]

The real effective exchange rate provides a measure of a country's prices compared with those of its main trading partners, with all prices expressed in a common currency. It thus serves as an indicator of the price competitiveness of the goods produced in a country vis-à-vis those of its trading partners.[2]

The real effective exchange rate of country i can be defined by means of the following formula (see Appendix):

$$TCR_i = TCN_i \cdot PR_i$$

where TCN_i is the nominal effective exchange rate, calculated as the weighted average of the indices of the exchange rate of currency i vis-à-vis the currencies of the country's trading partners. An increase in the index indicates a rise in the nominal effective exchange rate, i.e. an increase in the value of the country's currency compared with the other currencies taken together. PR_i is the index of the relative prices of country i, calculated as the ratio of the price index in that country to the weighted average of the indices of the prices in the other countries, expressed in local currency. An increase in the TCR_i index indicates a rise in the real effective exchange rate of country i and hence a loss of competitiveness by that country.

In order to construct an indicator of the real effective exchange rate it is necessary to choose:

i) the price series to be used in calculating the index of relative prices; and

ii) the method of weighting trading partners' exchange rates and prices.

Both choices depend on the purpose the indicator is intended to serve. In choosing the price series to be used in calculating the indicator of competitiveness, account has to be taken of the international comparability of the series and its significance with respect to the phenomenon to be measured. Consequently, the analysis is normally limited to manufacturing industry since its products are fairly homogeneous and exposed to international competition. The Bank of Italy produces three real exchange indicators, based respectively on export unit values, unit labour costs and producer prices in the manufacturing sector, the indicators are computed with reference both to Italy's fourteen main trading partners and to the other countries of the European Community.

For the first indicator, the export unit values of manufactures of each country are compared with those of the other exporting countries and with the prices of domestic producers (see Appendix). This indicator, based on the value of goods that have already been through customs, covers products competing with those of foreign producers but fails to provide a complete picture of the price competitiveness of a country's products because it fails to take account of any internationally traded goods that a country produces but does not actually export. Furthermore, the methods used to calculate export unit values differ from country to country and the figures themselves are frequently revised.

An indicator based on production costs would permit an assessment of the profitability underlying the production of traded goods. However, statistics are only available on labour costs and these are no more than a part of the total, a part that varies, moreover, across both countries and sectors. The statistics on unit labour costs are also subject to frequent and substantial revisions, primarily owing to the difficulty of measuring labour productivity.

The foregoing problems can be overcome by constructing an indicator based on producer prices in the manufacturing sector, which a large number of countries publish promptly. Such prices give a good indication of the competitiveness of domestic products in the domestic market with respect to imports. They reflect domestic cost developments, though changes in profit margins may cause costs and prices to diverge temporarily.

Other indicators based on consumer or wholesale prices tend to give a distorted picture of the price competitiveness of goods that are actually traded. Consumer price indices provide information on the relative price of the basket of consumer goods of each country, but they are not internationally comparable because they contain goods and services that are not traded and are far from being homogeneous. In particular, such indices are affected by the structural cross-border differences in distribution systems and direct taxation, which influence the level and development of prices in a country but not necessarily the price competitiveness of its products.[3]

Wholesale price indices refer to all the goods sold in each country, including those that are not produced there. Moreover, the broader definitions of such indices also include agricultural products, oil and other primary goods, the prices of which are determined in international markets and tend to be almost the same in each country.

The indicators prepared by the Bank of Italy are calculated using a "global" weighting system that takes account of competition in both foreign markets and the domestic market. The weights, which were last revised in 1989, are fixed and were determined with reference to the shares of trade and domestic production in the period 1981-83.[4]

Table 1

Export market competition matrix

(percentages; 1981-83 averages)

COMPETITORS / EXPORT MARKETS	CAN	USA	JAP	BEL	FRA	GER	UK	NETH	SWITZ	ITALY	IRE	DEN	AUS	SWE	SPAIN
1. Canada	71.8	22.3	2.4	0.1	0.5	0.8	0.9	0.1	0.2	0.4	0.1	0.1	0.1	0.2	0.1
2. United States ..	1.9	94.1	2.0	0.1	0.3	0.6	0.4	0.1	0.1	0.2	..	..	..	0.1	0.1
3. Japan	0.2	1.2	97.9	..	0.1	0.2	0.1	..	0.1	0.1	..	..	..	..	..
4. Belgium	1.3	9.6	3.1	9.5	15.9	26.8	7.9	14.6	1.6	4.7	0.8	0.4	0.6	2.2	0.9
5. France	0.2	1.9	0.8	3.1	77.1	7.2	1.9	1.6	0.8	3.4	0.2	0.2	0.2	0.5	0.9
6. Germany	0.2	1.7	1.3	2.0	2.8	81.9	1.5	2.4	1.1	2.5	0.2	0.5	1.0	0.7	0.3
7. United Kingdom	0.7	3.6	1.9	1.7	2.3	3.2	78.7	1.8	0.7	1.7	1.1	0.8	0.3	1.1	0.4
8. Netherlands ...	1.0	7.9	2.5	9.0	4.7	18.7	5.7	42.8	0.9	2.6	0.6	0.6	0.5	1.7	0.7
9. Switzerland	0.2	2.9	1.5	1.4	4.1	10.7	2.9	1.1	68.6	3.7	0.1	0.4	1.5	0.7	0.4
10. Italy	0.1	1.0	0.3	0.8	2.8	4.2	1.0	0.8	0.6	87.1	0.1	0.2	0.5	0.3	0.3
11. Ireland	0.6	5.9	1.4	1.1	2.1	4.4	22.9	1.5	0.5	1.3	56.3	0.5	0.2	1.0	0.4
12. Denmark	0.2	2.1	2.4	2.0	2.5	13.9	4.2	2.5	1.4	1.9	0.3	58.4	0.8	7.0	0.4
13. Austria	0.1	0.9	1.0	0.9	1.7	18.4	1.0	1.2	2.6	3.4	0.1	0.2	67.6	0.8	0.1
14. Sweden	0.3	3.3	1.8	1.5	2.4	10.0	4.4	1.8	1.2	1.5	0.3	3.1	0.8	67.3	0.3
15. Spain	0.1	1.4	0.7	0.4	2.3	2.6	1.1	0.5	0.4	1.1	0.1	0.1	0.1	0.3	88.9
16. Rest of the world	1.9	21.8	22.2	2.1	8.3	14.6	8.7	3.3	2.3	7.0	0.3	1.2	1.4	2.8	2.0

N.B. Rounding may cause the sum of a row not to be equal to 100.

Table 2

Export weights
(percentages; 1981-83 averages)

COMPETITORS / EXPORTING COUNTRIES	CAN	USA	JAP	BEL	FRA	GER	UK	NETH	SWITZ	ITALY	IRE	DEN	AUS	SWE	SPAIN
1. Canada	–	79.1	8.4	0.5	1.7	2.8	3.2	0.4	0.7	1.4	0.3	0.2	0.2	0.8	0.3
2. United States ..	32.1	–	33.7	1.8	4.3	9.9	6.4	1.5	1.8	4.2	0.5	0.7	0.4	1.7	1.1
3. Japan	9.6	57.4	–	1.3	4.2	9.5	5.2	1.2	3.3	3.4	0.6	1.3	0.7	1.5	0.9
4. Belgium	1.4	10.6	3.5	–	17.6	29.6	8.7	16.2	1.8	5.2	0.9	0.5	0.7	2.5	1.0
5. France	0.7	8.5	3.3	13.3	–	31.2	8.3	7.1	3.6	15.0	0.9	1.0	0.9	2.1	4.0
6. Germany	1.0	9.4	7.1	11.3	15.6	–	8.4	13.0	6.2	13.6	1.0	2.5	5.6	3.6	1.8
7. United Kingdom	3.4	16.9	9.0	8.1	11.0	15.1	–	8.2	3.2	8.0	5.3	3.7	1.2	5.0	2.0
8. Netherlands ...	1.7	13.8	4.4	15.7	8.3	32.8	9.9	–	1.6	4.5	1.1	1.1	0.9	3.0	1.2
9. Switzerland	0.7	9.2	4.8	4.4	13.0	33.9	9.2	3.4	–	11.6	0.3	1.3	4.8	2.2	1.1
10. Italy	1.0	8.0	2.3	6.1	21.6	32.3	7.4	6.2	4.6	–	0.6	1.6	3.5	2.3	2.3
11. Ireland	1.3	13.5	3.2	2.4	4.8	10.2	52.3	3.5	1.1	3.0	–	1.1	0.5	2.2	1.0
12. Denmark	0.5	5.0	5.7	4.9	6.1	33.4	10.2	6.1	3.3	4.7	0.6	–	1.8	16.9	0.9
13. Austria	0.3	2.7	3.0	2.9	5.1	56.7	3.2	3.7	8.0	10.7	0.3	0.8	–	2.4	0.4
14. Sweden	0.9	10.1	5.6	4.6	7.4	30.7	13.5	5.5	3.7	4.6	0.8	9.4	2.4	–	0.8
15. Spain	0.8	12.3	6.0	3.6	20.8	23.4	10.2	4.1	3.2	9.9	0.8	0.8	1.3	2.8	–

N.B. Rounding may cause the sum of a row not to be equal to 100.

The calculation of the weights is carried out in two stages (double weighting) using a method analogous to that employed by the leading international organizations, with account being taken of the competition in each market of both local producers and the exporters of other countries. The global weights are calculated as the mean of the export and import weights. The export weights take account both of the share of exports to the other trading partners in the country's total exports and of the importance of these countries as exporters to the other countries.[5] For example, the weight attributed to the export competition of French products vis-à-vis Italian products is influenced by the importance of France both as an export market for Italian products and as a competitor in other markets. Table 1 shows the share of domestic production in each country's total sales of goods, together with the shares of the exports of its trading partners. In France (row 5), Italian exports amount to around 3 per cent of the total market and compete both with French products (about 77 per cent of the total) and with those of other countries, especially Germany and Belgium (about 7 and 3 per cent of the total, respectively).

Re-elaboration of the data shown in Table 1 taking account of the relative importance of the export markets of each exporting country gives the complete structure of the export weights.[6] As can be seen from the tenth row of Table 2, French products sold domestically and exported represent about 22 per cent of the competition for Italian products.

The structure of the import weights is determined on the basis of the shares of imports from the trading partners in total imports. The tenth row of Table 3 shows that about 18 per cent of Italy's imports come from the United States, 17 per cent from France and 23 per cent from Germany.

The structure of the global weights is obtained as the weighted average of the import and export weights of each country.

The sources of the price and exchange rate statistics used are the OECD, the IMF and national bulletins. The series of Italian producer prices is compiled by the Bank of Italy and is described in the Appendix.

Table 3

Import weights
(percentages; 1981-83 averages)

COMPETITORS / IMPORTING COUNTRIES	CAN	USA	JAP	BEL	FRA	GER	UK	NETH	SWITZ	ITALY	IRE	DEN	AUS	SWE	SPAIN
1. Canada	–	73.0	8.6	0.7	2.5	4.6	4.5	1.4	0.7	2.0	0.2	0.3	0.3	0.7	0.6
2. United States ..	18.7	–	22.3	2.3	9.0	15.3	10.9	4.4	2.6	6.7	0.7	1.1	1.2	2.7	2.3
3. Japan	3.6	43.0	–	2.0	7.8	15.0	9.4	3.3	2.3	6.0	0.4	1.2	1.3	2.6	2.0
4. Belgium	1.1	11.2	5.9	–	19.1	25.2	11.3	8.5	2.7	7.9	0.6	1.2	1.3	2.3	1.7
5. France	1.7	17.0	11.2	2.8	–	23.6	11.0	5.3	4.1	13.3	0.6	1.2	1.5	2.6	4.0
6. Germany	1.7	18.2	11.2	3.5	16.7	–	9.7	7.7	5.2	11.6	0.6	2.1	4.8	3.9	2.9
7. United Kingdom	2.5	22.0	13.0	2.6	11.5	18.6	–	5.3	3.5	7.9	3.8	1.6	1.3	3.6	2.8
8. Netherlands ...	1.2	12.3	8.0	3.2	14.1	29.3	12.3	–	2.6	8.6	0.7	1.5	1.6	2.7	2.0
9. Switzerland	1.7	16.7	11.0	2.1	11.4	24.2	9.2	3.5	–	9.7	0.4	1.4	3.7	2.8	2.3
10. Italy	1.7	17.6	11.2	2.5	16.6	23.2	9.9	3.9	4.3	–	0.5	1.1	2.4	2.3	2.8
11. Ireland	1.9	13.0	6.3	2.5	10.0	15.3	32.8	4.8	1.7	5.4	–	1.1	0.9	2.2	1.9
12. Denmark	1.5	15.1	10.6	2.1	8.2	20.5	15.9	3.7	2.8	7.7	0.7	–	1.4	8.3	1.6
13. Austria	1.3	11.8	9.3	2.1	7.8	32.0	7.7	3.5	6.3	11.5	0.4	1.4	–	3.0	1.9
14. Sweden	2.0	18.4	11.5	2.4	9.4	19.4	13.1	4.7	2.8	7.1	0.7	4.6	1.7	–	2.3
15. Spain	1.8	18.9	12.2	2.4	17.3	16.9	10.2	3.8	2.5	9.1	0.5	1.1	1.1	2.2	–

N.B. Rounding may cause the sum of a row not to be equal to 100.

Table 4

Global weights
(percentages; 1981-83 averages)

COMPETITORS / COUNTRIES	CAN	USA	JAP	BEL	FRA	GER	UK	NETH	SWITZ	ITALY	IRE	DEN	AUS	SWE	SPAIN
1. Canada	–	76.9	8.5	0.6	1.9	3.4	3.7	0.7	0.7	1.6	0.3	0.2	0.2	0.8	0.4
2. United States ..	30.8	–	32.7	1.9	4.7	10.4	6.8	1.7	1.9	4.4	0.5	0.7	0.5	1.8	1.2
3. Japan	8.6	55.1	–	1.5	4.8	10.3	5.9	1.6	3.1	3.8	0.5	1.3	0.8	1.7	1.0
4. Belgium	1.1	11.1	5.7	–	19.0	25.6	11.1	9.1	2.6	7.7	0.6	1.2	1.2	2.3	1.7
5. France	1.0	10.6	5.3	10.7	–	29.4	8.9	6.7	3.7	14.6	0.9	1.0	1.1	2.3	4.0
6. Germany	1.3	12.6	8.6	8.4	16.0	–	8.9	11.0	5.9	12.9	0.8	2.4	5.3	3.7	2.2
7. United Kingdom	3.2	18.2	10.0	6.6	11.1	16.0	–	7.5	3.3	8.0	4.9	3.2	1.3	4.6	2.2
8. Netherlands ...	1.3	12.8	6.9	6.8	12.4	30.3	11.6	–	2.3	7.4	0.8	1.3	1.4	2.8	1.8
9. Switzerland	1.0	11.7	6.9	3.6	12.5	30.6	9.2	3.4	–	11.0	0.4	1.3	4.4	2.4	1.5
10. Italy	1.2	10.3	4.4	5.2	20.4	30.2	8.0	5.7	4.5	–	0.6	1.5	3.2	2.3	2.4
11. Ireland	1.6	13.3	4.6	2.5	7.2	12.5	43.5	4.1	1.4	4.1	–	1.1	0.7	2.2	1.4
12. Denmark	0.9	9.8	8.0	3.5	7.1	27.2	13.0	4.9	3.1	6.1	0.6	–	1.6	12.8	1.3
13. Austria	0.6	5.9	5.2	2.6	6.1	48.0	4.7	3.6	7.4	11.0	0.3	1.0	–	2.6	0.9
14. Sweden	1.4	14.1	8.4	3.6	8.4	25.3	13.3	5.1	3.3	5.8	0.7	7.1	2.1	–	1.5
15. Spain	0.9	13.1	6.8	3.5	20.4	22.6	10.2	4.0	3.1	9.8	0.8	0.9	1.3	2.7	–

N.B. Rounding may cause the sum of a row not to be equal to 100.

Figure 1 shows the three indicators of Italy's real effective exchange rate vis-à-vis the country's fourteen main trading partners and the other EC countries since 1974. The last value refers to the first ten days of October 1992.[7]

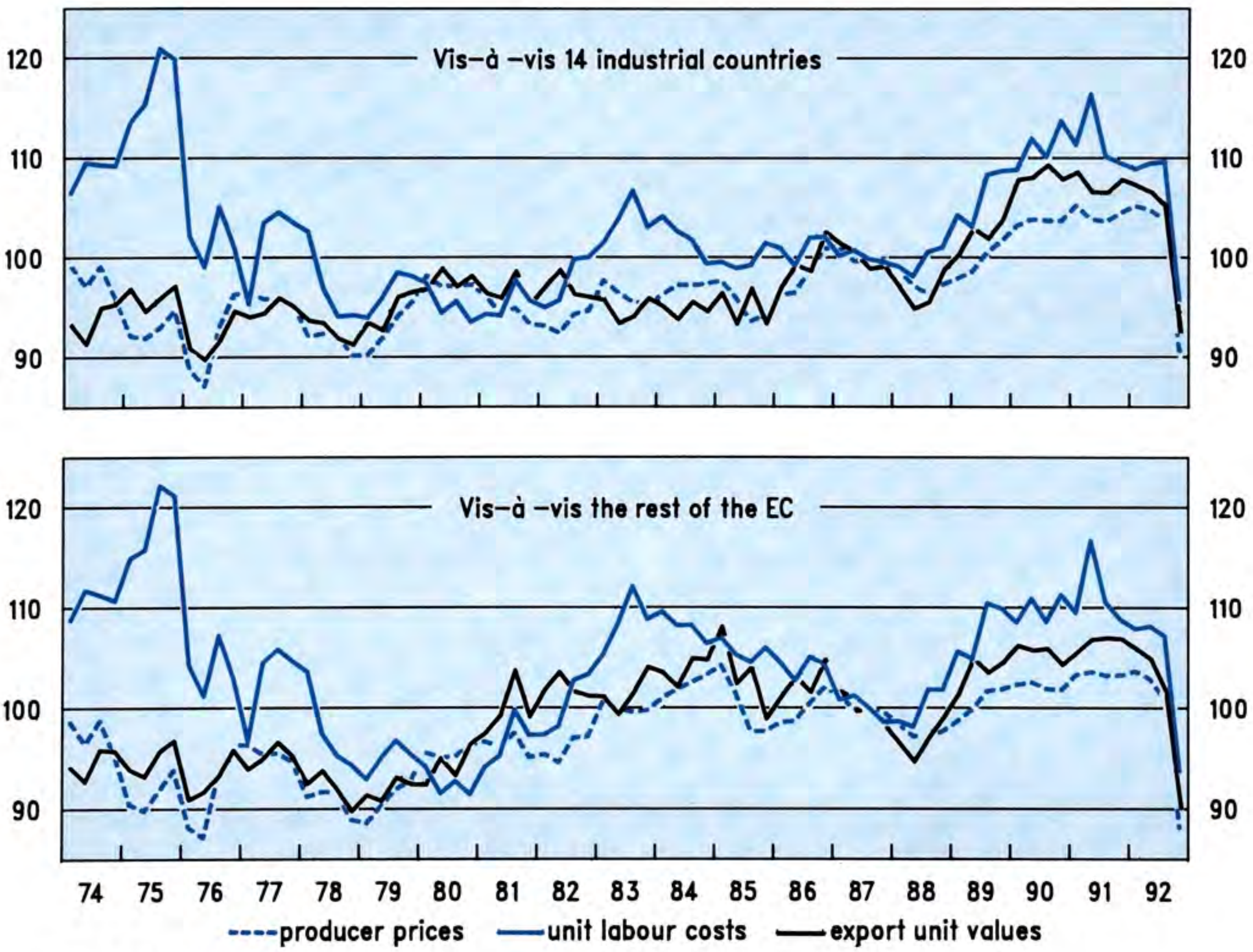
The changes in the indicators based on producer prices and export unit values are fairly similar, while the indicator based on unit labour costs shows wider fluctuations and much larger changes from quarter to quarter. After rising significantly in 1979, Italy's real effective exchange rate vis-à-vis the country's fourteen main trading partners remained basically stable in the first half of the eighties in terms of producer prices and export unit values. By contrast, it continued to rise vis-à-vis the rest of the European Community.

In the second half of the eighties all three broad indicators tended to rise, owing in part to the weakness of the dollar. In the second quarter of 1992 the indicator based on producer prices was up by 4.7

Figure 1

Indicators of Italy's real effective exchange rate (1)

(indices, 1987=100)



Sources: Based on OECD, IMF and Istat data.

(1) The last value refers to the first ten days of October 1992. A rise in the index corresponds to a rise in the real effective exchange rate and a loss of competitiveness.

per cent on the 1987 average, that based on export unit values by 6.5 per cent and that based on unit labour costs by 9.4 per cent. With reference to the other EC countries, the real effective exchange rate of the lira declined between 1984 and 1988, partly as a result of EMS realignments, and then rose: in the second quarter of 1992 the three EC indicators were up on the 1987 average by respectively 2.7, 4.8 and 7.9 per cent.

Italy's real effective exchange rate has fallen considerably following the September crisis. On the basis of the nominal exchange rates recorded in the first ten days of October, the EC indicator based on producer prices was down on the 1987 average by about 12 per cent, that based on export unit values by 10 per cent and that based on unit labour costs by 6 per cent (the three broad indicators were down by respectively 10, 7 and 4 per cent).

Comparison of the methods of calculation used by the Bank of Italy, the EC Commission, the OECD and the IMF reveals similarities and differences. The Bank of Italy is the only organization to publish figures for all three indicators. The EC Commission publishes figures for indicators based on producer prices and unit labour costs in manufacturing, but uses the deflator of exports of goods and services to determine export unit values. The OECD does not publish an indicator based on the producer prices of manufactures, while the IMF uses "normalized" unit labour costs, adjusted for the effect of cyclical variations in productivity. The IMF also uses wholesale prices in the place of producer prices. Another difference between the various indicators concerns the number of trading partners considered: the Bank of Italy refers to 14, the OECD to 23, the IMF to 17 and the EC Commission to 20. Considering a larger number of trading partners increases the geographical area covered by the indicator. The Bank of Italy decided to limit the scope of its indicators to its main industrial trading partners in order to have homogeneous and promptly available data. The double weighting method is also used by the EC Commission and the OECD to determine the weighting structure, whereas the IMF considers the estimated price elasticities of each country's exports and imports, with the result that the calculation of its weights is much more complicated. To conclude, the period referred to in calculating the structure of the fixed weights varies. The Bank of Italy refers to 1981-83, the EC Commission to 1986 and the IMF to 1980. By contrast, the OECD uses moving weights.

The different indicators of Italy's real effective exchange rate do not show major disparities (Table 5). The values of the Bank of Italy's indicator based on producer prices are very close to those of the corresponding EC indicator, while those of the IMF indicator, which is based on wholesale prices, are somewhat lower for the period 1990-91. The Bank of Italy's indicator based on export unit values shows a

Table 5

Comparison of the different indicators of Italy's real effective exchange rate

(indices, 1987=100)

	Producer prices				Export unit values				Unit labour costs			
	BI	EC	OECD	IMF (1)	BI	EC (2)	OECD	IMF	BI	EC	OECD	IMF (3)
1980	97.4	96.9	....	96.9	97.8	92.4	96.8	96.3	95.2	98.2	96.5	98.0
1985	95.3	91.9	....	92.3	95.0	92.0	98.0	96.3	99.7	95.4	98.7	98.5
1988	97.3	97.5	....	97.9	96.6	98.5	96.9	96.7	99.6	98.3	98.8	97.5
1989	99.6	99.5	....	100.0	102.3	100.5	102.9	102.5	106.0	103.3	103.7	102.8
1990	103.5	104.5	....	102.5	108.3	107.2	108.3	108.4	111.1	109.0	109.4	109.8
1991	104.2	103.7	....	101.9	107.4	107.1	109.4	110.3 (4)	111.7	108.6	110.9	112.3
1992 – 1st qtr.	105.1	104.8	....	....	107.1	108.1	108.9	....	108.7	109.0	110.0	114.6

(1) Wholesale prices of manufactures. – (2) Export unit values of all goods and services exported. – (3) "Normalized" unit labour costs. – (4) Average of the first three quarters.

smaller rise compared with 1987 than the corresponding ones of the OECD and the IMF. As regards the indicators based on labour costs, the more recent values of the Bank of Italy's indicator have been basically in line with those of the EC Commission and the OECD, while that compiled by the IMF indicator using "normalized" labour costs has risen more compared with the base year.

1 The Bank of Italy's real effective exchange rate indicators have been described in S. Vona and R. Valcamonici, "Indicatori di competività per l'Italia e per i principali paesi industriali: metodologia e criteri di calcolo", in Banca d'Italia, *Appendice al Bollettino Statistico*, no. 1-2, January-June 1982 and in articles published in Banca d'Italia, *Bollettino Economico*, no. 8, February 1987 and *Economic Bulletin*, no. 8, February 1989.

2 See P. Armington, "The geographic pattern of trade and the effects of price changes", *IMF Staff Papers*, March 1979.

3 Consumer prices nonetheless lend themselves to the construction of indicators of the competitiveness of a country's tourist services. The Bank of Italy prepares two such indicators: one for foreign tourism in Italy and the other for Italian tourism abroad (see Banca d'Italia, *Economic Bulletin*, no.7, October 1988, pp. 21-22.

4 See "New indices of nominal and real effective exchange rates" in Banca d'Italia, *Economic Bulletin*, no. 8, February 1989.

5 In assessing the competition of the country's trading partners in third countries, the export market considered is the rest of the world.

6 For example, the tenth row of Table 2, referring to Italy, is obtained by eliminating from Table 1 the row and the column that refer to Italy, rescaling the data so that the sum of each row is equal to 100 and then summing the figures of each column, weighted on the basis of the share of Italian exports that go to each export market.

7 The nominal effective exchange rate was calculated on the basis of the mean exchange rates of the first ten days of October. Specifically, the values correspond to bilateral rates of 1,292 lire against the dollar and 900 lire against the Deutschemark. The data on relative prices in the third quarter were partly estimated, assuming the same rate of increase as in the second quarter.

APPENDIX

A. Methods of calculating the indicators of the real effective exchange rate

1. *Indicator based on export unit values*

1.1 *Export indicator*

$$TCRX_i = \frac{1}{\prod_{j \neq i} E_{ij}^{\,w_{ij}}} \cdot \frac{Px_i}{\prod_{j \neq i} Px_j^{\,v_{ij}} \cdot \prod_{j \neq i} P_j^{\,z_{ij}}}$$

Π = the product

E_{ij} = index of the bilateral exchange rate of currency i; the amount of the currency required to buy a unit of currency j

Px_i = index of the average export unit value of the manufactures of country i, expressed in domestic currency

P_i = index of the producer price of manufactures of country i, expressed in domestic currency

X_{ij} = exports of country i to country j

PI_i = production of country i sold in country i

v_{ij} = weight attributed to the competition of the exporters of country j, calculated as the sum of the ratios of the exports of country j to each market (k) to the sum of the exports of competing countries (m) to that market (k) and domestic production, weighted by the importance of that market for the exports of country i (the markets comprise the country's trading partners and the rest of the world, see Table 1)

$$v_{ij} = \sum_{\substack{k \neq i \\ k \neq j}} \frac{X_{jk}}{\sum_{\substack{m \neq i \\ m \neq k}} X_{mk} + PI_k} (X_{ik}/X_i)$$

z_{ij} = the weight relative to local producers in market j, calculated as the ratio of local production PI_j to the sum of this production and the exports of third countries (m) to country j

$$z_{ij} = \frac{PI_j}{\sum_{\substack{m \neq j \\ m \neq i}} X_{mj} + PI_j} (X_{ij}/X_i)$$

$$w_{ij} = v_{ij} + z_{ij} \qquad \Sigma w_{ij} = 1$$

1.2 *Import indicator*

$$TCRM_i = \frac{1}{\prod_{j \neq i} E_{ij}^{\,m_{ij}}} \cdot \frac{P_i}{\prod_{j \neq i} Px_j^{\,m_{ij}}}$$

$$m_{ij} = \frac{X_{ji}}{\sum_{j \neq i} X_{ji}}$$

1.3 *Global indicator*

$$TCVR_i = TCRX_i^{\,\alpha_i} \cdot TCRM_i^{(1-\alpha_i)}$$

$$\alpha_i = \frac{\sum X_{ij}}{\sum X_{ij} + \sum X_{ji}}$$

2. *Indicator based on producer prices*

$$TCRP_i = \frac{1}{\prod_{j \neq i} E_{ij}^{\,n_{ij}}} \cdot \frac{P_i}{\prod_{j \neq i} P_j^{\,n_{ij}}}$$

$$n_{ij} = \alpha_i w_{ij} + (1 - \alpha_i)\, m_{ij}$$

where the values of the weights are determined as described at point 1.

3. *Indicator based on unit labour costs*

$$TCRC_i = \frac{1}{\prod_{j \neq i} E_{ij}^{\,n_{ij}}} \cdot \frac{CL_i}{\prod_{j \neq i} CL_j^{\,n_{ij}}}$$

where CL_i is the index of the unit labour costs of country i.

B. Statistical sources

1. *Exchange rates*: IMF and Bank of Italy.

2. *Producer prices of manufactures*: OECD (for Canada, the United States, Japan, the United Kingdom, Germany, the Netherlands, Switzerland, Austria, Sweden and Spain); IMF (for Ireland and Denmark); national bulletins (for France and Belgium).

   The index of producer prices for Italy is compiled by the Research Department of the Bank of Italy.[1]

   The first step involves calculating the indicator of the price of the output of each of the 44 branches of the NACE-CLIO classification on the basis of the weighted average of the elementary price indices (for intermediate goods, final goods and exports), using weights corresponding to the share of sales in total output. The data used for the construction of these indicators are mainly those published by Istat (customs trade data, producer prices, wholesale prices, consumer prices and national accounts data).

   The indicators obtained in this way are then aggregated by macrosector using a weighting system determined on the basis of the input-output matrices *at 1980 prices* for 1973, 1974, 1975, 1980, 1982, 1985 and 1988. The macrosectors considered are: energy (NACE 03-11), industry (NACE 13-51), industry excluding construction (NACE 03-51), food processing (NACE 31-39), market services (NACE 55-79) and broadly defined industry (NACE 13-51 plus sectors 3 and 7). The price of the output of the last of these aggregates is the one used to calculate the real exchange rate.[2]

3. *Export unit values of manufactures*: OECD.

4. *Unit labour costs in the manufacturing sector*: OECD. For Italy, based on Istat data that take account of the self-employed (about 16 per cent of total employment).

1 For further details, see P. Rubino (ed.), "Indicatori dei prezzi input-output", in *Supplemento al Bollettino Statistico*, no. 8, 18 July 1991.

2 The indicator of the price of the output of manufactures computed by the Bank of Italy and the index of producer prices excluding "Power, gas and water" that Istat has computed in recent years are very similar.

Speeches

Address by the Governor, Carlo A. Ciampi,

to the Annual General Meeting of the Italian Bankers' Association

Rome, 24 June 1992

In addressing this Assembly, I would like first to pay tribute to Felice Gianani, who died prematurely in February.

During his long tenure as General Manager of the Italian Bankers' Association, a period that coincided with profound changes in the banking system, we all knew him as a man able to address issues in a practical way, widely experienced both in Italy and abroad, and with a natural openness to dialogue. His every act displayed the steadfast moral principles innate in his character and in his modus operandi.

I extend to his successor, Giuseppe Zadra, my warmest wishes for success, in the certainty that his experience in the fields of credit and finance will serve your Association well.

Over the years the Italian Bankers' Association has understood well how to play its role as an organization representing enterprises that compete with each other and yet constitute a system; that role has been to stimulate cooperation as a complementary and intermediate stage between entrepreneurship, which is the domain of business managers, and supervision, which is the responsibility of the authorities. It has performed this function independently, though in consultation with the Bank of Italy, and its responsibilities have evolved as legislation has changed and competition increased.

Competition, cooperation, self-regulation

The wide-ranging and profound changes in legislation on the financial sector and in the structure of financial institutions in recent years have been prompted by real and increasingly widespread competition and, more importantly, by the assertion that banks are enterprises, whose aim it is to generate profit by producing services essential to the economy.

Bringing about change certainly does not mean challenging the special nature of the credit sector. The underlying functions of banking are unaltered: the motives that lead savers to entrust banks with the management of their assets are still valid, although the scope of the mandate is narrowing. Despite the development of the capital market, banks are still in the business of lending money to enterprises on terms that reflect a case-by-case assessment of firms' creditworthiness, and they still have a fundamental duty to provide efficient and secure payment services.

Increasing competition brings with it a growing need for information. The promotion of greater access to information serves two ends: fairness, which demands protection for the "weaker" party, and efficiency throughout the banking and financial systems.

The decision to encourage entrepreneurship and competition was also at the root of the measures designed to allow market forces to assess performance alongside the control function exercised by supervision: the same convictions inspired the development of cooperation and self-regulation within the sector, for which the Association's support was decisive.

The six-monthly returns of the most significant accounting data on individual banks' financial standing, profitability and risks were introduced as long ago as 1985. The limits on the compulsory reporting of corporate information were removed. The establishment of the Interbank Deposit Protection Fund on a voluntary basis was accomplished in the same spirit.

Cooperation and self-regulation developed further in the late eighties; the interbank convention on the transparency and public display of the conditions applied to customers was concluded in response to the growing demand for information.

The extension of legislation to matters covered by self-regulation reflects Parliament's desire to intervene directly in order to ensure that meaningful information is provided on the widest possible range of intermediaries and financial activities. Far from invalidating earlier initiatives, Parliament's intervention is an incentive to banks and their Association to push ahead in this direction with even greater determination and effectiveness.

Annual accounts and the rules on transparency

The Minister of the Treasury and the Bank of Italy will shortly issue the provisions to implement the Community Directive on the annual accounts of banks and financial institutions.

For banks and other financial intermediaries, as for any enterprise, the basic purpose of annual accounts is to provide a truthful and accurate picture of their financial situation and profitability. The informative function of accounts is not unlike that of a price tag: they express a company's "worth", although obviously in much more complex terms. Technically appropriate and uniform rules are needed for the market to be able to compare company accounts; the public, the intermediaries and the supervisory authorities all benefit.

The Community legislation on annual accounts standardizes many of the criteria used in supervisory returns and in published balance sheets for determining net capital in relation to risk; in most cases the criteria are the same as for the data published twice yearly by the Italian Bankers' Association. It is therefore possible to begin to unify the sources of information on banks, to the benefit of the market as well as the banks themselves.

The new sources of information can and must be exploited within banks themselves for internal auditing and self-assessment. It is to be hoped that banks will be swift to seize these opportunities. It is now three years since the banking statistics were reformed, and yet several banks are still not making full use of the potential offered by the PUMA 2 procedure; created as a channel for submitting banking returns to the supervisory authorities and the Italian Foreign Exchange Office, PUMA 2 also enables banks to improve their operational control by eliminating or reducing the cost of producing specific sets of data.

Law 154 of February 1992, which sets the rules for transparency in the conditions for the supply of banking and financial services and complements the regulations concerning contracts, is another instance in which legislation is combined with self-regulation by the various banking associations, an approach I described as desirable in evidence to the sixth Commission of the Chamber of Deputies in 1988.

The Law aims to establish an obligation to publicize contractual conditions and to guarantee that agreements, once negotiated, will be applied. With regard to the fairness of competition, it is noteworthy that the Law extends the scope of the legislation to the entire range of financial intermediaries.

The Treasury Minister has issued the relevant directives and the Bank of Italy the instructions for implementing them; these are of a provisional nature and can be amended in the light of experience.

The instructions draw on the earlier interbank convention on transparency as regards the form and content of the information to be provided and the manner in which it is to be publicized; they extend the requirements to additional operations and services and provide initial guidelines for calculating and publicizing interest rates.

The Law affirms the principle that contracts should, as a rule, be in writing. The latitude allowed by the provisions has been used to avoid unnecessary rigidity in their application. The requirements as to the form and content of contracts for dealing in securities are explicitly based on the regulations issued by the Consob. The procedures for notifying customers of unfavourable changes in conditions and providing periodic statements of account have been framed in the same spirit of customer protection without imposing unduly cumbersome operational requirements.

The next area to be regulated will be consumer credit. The cost factors that all lenders will be required to include when calculating the "actual total annual rate" will be defined. This rate should provide a sufficiently reliable and, above all, uniform indication of the overall cost of financial transactions. It will be expressed as an annual percentage of the credit in order to make it easier for the borrower to understand and to compare it with other offers.

The significance of the publication requirements and the imposition of administrative penalties for non-compliance do not alter the fact that disputes between intermediaries and customers are subject to civil law. These should be resolved by means of streamlined procedures similar to those used to monitor compliance with the agreements on transparency. One idea worthy of further consideration is the creation of a collegial body to examine customers' complaints about their dealings with banks and to publish its findings; the composition of the body would be such as to ensure evenhandedness and understanding of the technical and operational aspects.

Improvements in the quality of customer services are only slowly becoming apparent. Even the reform of the payment system has not yet fulfilled its potential to raise standards. Payment times are still longer than can be achieved using interbank procedures and longer than in most other leading countries.

The Bank of Italy intends to use the powers granted in the Treasury decree implementing the Law on transparency to require each intermediary to make public its maximum period for payment operations and the maximum time needed for funds to be cleared through the interbank system.

The introduction of uniform procedures for settling interbank payments now enables banks to operate within a framework of certainty, with predetermined rules and times. However, all the banks must be a party to the new procedures if they are to be able to guarantee minimum levels of service that satisfy customers' needs.

Banking and industry

The Italian credit system has demonstrated its ability to react to difficult market conditions. If it is to continue to show balanced growth, banks must now adjust the composition of their balance sheets through a managed "disintermediation of assets". This can and must imply not looser, but stronger and more extensive ties between banks and firms.

It is essential that the relationship between banks and the firms they finance evolve from one typically entailing only lending operations, most often in conjunction with other banks, towards comprehensive forms of financial assistance. In contrast with the traditional approach to banking, banks need to focus on the structure of firms' liabilities and to identify, propose and implement the solutions that are most appropriate to the overall situation of the particular firm and its future development.

The policy of allowing banks to acquire shareholdings in non-financial firms should be interpreted as part of this approach. Its substantive and procedural aspects, which the Bank is now defining, can be incorporated into the administrative rules implementing the legislative decree that will transpose the Second Banking Directive into Italian law.

Direct, and preferably temporary bank shareholdings in non-financial firms must not be viewed as an end in itself. The purpose of the new investment powers is to enhance banks' ability to acquire information and increase the instruments at their disposal to improve the financial conditions of firms. As well as underwriting public share offerings, banks will be able to promote the growth of firms directly, especially small or medium-sized ones, by helping them achieve a correct balance between own funds and borrowing.

There is symmetry between the new policy and the legislation on the separation of banking and industry. In order to facilitate an infusion of entrepreneurial values, non-financial companies are now permitted to hold non-controlling equity interests in banks. Similarly, within the framework of rules on risk limitation, the participation of a bank in the capital of a non-financial firm must be designed to give the firm a financial structure that is more balanced, less vulnerable and more responsive to the firm's developmental needs.

Current trends in banking

In the second half of the eighties and the early nineties, the banks drastically altered the composition of their balance sheets by concentrating on lending to the private sector. They were encouraged to do so by the removal of administrative constraints, by the reaffirmation of entreprenuerial values in banking and by their awareness of the growing openness of credit markets. The private sector's improved creditworthiness and larger financing needs made it possible for banks to restructure their balance sheets profitably. The long period of high profitability was used to achieve a massive strengthening of banks' capital bases, with the result that the Italian banking system is now one of the most highly capitalized in the world.

The trends in credit demand that prevailed in the eighties are still evident today, albeit in attenuated form. The private sector's demand for loans is being fueled by the growth of transactions in real and financial assets and, to a lesser extent, by corporate borrowing to ride out the downturn in economic activity. In spite of the deterioration in the business climate, banks still see ample scope to expand and consolidate their positions in the loan market. However, they can no longer finance the growth in lending by disposing of securities. Many banks have reduced their securities portfolios as far as it is expedient to do so, and expectations that domestic interest rates will fall towards the European average could induce them to reverse the process.

In view of increasingly fierce competition, banks are now concentrating on growth rather than on adjusting the composition of their balance sheets. If this strategy causes deposits to grow more rapidly than the target for monetary expansion, their net interest income could decline. Indeed, they might wrongly view difficulties on the funding side as an individual liquidity problem, rather than a consequence of this conflict with monetary policy; in that event, recourse to other sources of funding or efforts to secure a larger share of the deposit market would ultimately reduce their profitability.

Signs of such a tendency emerged in 1991 and in the early part of this year. The growth in bank deposits has not been in line with the monetary targets since last October. Taking the last quarter of 1991 as a baseline, deposits grew at an annual rate of 9.1 per cent in the three months to the end of May, in contrast with the annual M2 target range of between 5 and 7 per cent. Excluding repurchase agreements with the Bank of Italy, banks' securities portfolios grew by nearly 13 trillion lire in the first five months of 1992, whereas they had diminished by 31 trillion in the same period in 1991. Banks' foreign currency fund-raising abroad has been considerable. In the first four months of this year their net external liabilities averaged 102 trillion lire, equal to almost 13 per cent of their total domestic and foreign deposits, compared with 8 per cent in the same period in 1991. Foreign borrowing by credit institutions is offsetting a large part of the net capital outflows and the current account deficit. Exchange rate stability, which is the aim of efforts to keep money supply growth within the target range, is helping both directly and indirectly to reduce the cost of recourse to the international money market.

Even last year the profitability of banks' money management was adversely affected by the rate of growth in bank liabilities, which exceeded the monetary targets. Only a selective lending policy and moderation in the pursuit of deposits can prevent a heightening of competitive pressures. Such a combination would also ease the central bank's task of guaranteeing monetary stability.

* * *

Some of you my be surprised that I have chosen to address your AGM on strictly sectoral matters, while larger issues are pressing. I have done so not only out of respect for tradition, but also because I believe that each individual in his own sphere of activity must respond to the importance of the present moment. If the moral and civic reawakening that we all feel is necessary is to transcend mere rhetoric, it must be translated into a concrete, daily commitment by each and every one to perform his specific functions to the best of his ability.

You are entrusted with the credit sector, which is changing and gaining strength. It is a fundamental part of the economy, and its servant; it can and must be a source of dynamism, impetus and order. The activity of deposit-taking and lending implies more than a neutral transfer of resources from one holder to another; it must be a function that creates new wealth, a means of increasing the rewards from the intermediated resources. The money you manage is not intrinsically evil, but it can become so if it is used badly; used well, money is a source of prosperity and progress – and not just on the material plane. The transformation of the potential inherent in savings into greater or lesser resources for our country depends on your professional ability and on the efficiency of your banks. I should add that professional ability consists not only in technical expertise, but also and primarily in professional ethics. For us and for everyone, the moral and civic reawakening means performing one's task with a sense of having to account constantly for every action, not only to oneself or to particular sections of society, but to the entire community.

It is up to you first and foremost to strengthen and further improve the efficiency of your institutions; to refine and expand their ability to assist firms in industry, agriculture and services by lending and by other means; to understand firms' possibilities and development needs; to combine analysis with intuition in evaluating risks, which it is your duty to assume within the limits suggested by prudence and by your awareness that you are managing the wealth of others. In this everyday endeavour you know you can count on the Bank of Italy. The central bank has always regarded itself not as an external body, but as an integral part of the banking system, as an institution that respects your entrepreneurial decisions and is attentive to your views not only in shaping changes in the basic structure of the system, but also in monitoring and supporting your policies and the overall condition of your banks.

President Bianchi devoted a major part of his clear analysis to the banking system's capacity to interpret and transmit the impulses of monetary policy. Together with operational efficiency and the standard of services provided to customers, that capacity represents a significant aspect of the functionality of a modern banking system set in a market economy that is closely integrated into international finance.

The importance and value of that aspect of the function of the banking system have been evident in the light of the sudden strong pressures that the lira and Italy's financial markets have faced in recent weeks. In early June the effects of the protracted government crisis and the outcome of the Danish referendum on the Maastricht Treaty combined to cause many investors, foreign investors in particular, to doubt the credibility of Italy's economic policy and the prospects of sustaining the exchange rate of the lira.

The Bank of Italy has countered these pressures vigorously, both because it is convinced that the stability of the lira is the basic precondition for the entire strategy of economic rehabilitation and because it is confident that resolute government action will not be delayed further.

The measures taken in response – a prompt increase in the premium on fixed-term advances, foreign exchange intervention, stringent control of liquidity through open market operations – have been selected in the light of the nature of the speculative wave that has swept our markets, made all the more insidious by coming at a time of underlying weakness in the economy. Although the entire spectrum of maturities has been affected, the repercussions have been concentrated at the short end of the money and financial markets and can therefore be more rapidly absorbed. The defences have held; they have been constructed in such a way as to limit the costs for the real economy, where production is stagnant.

When I addressed the General Meeting of Shareholders of the Bank of Italy on 30 May I stressed the need for speedy action; the events that have occurred since then make it all the more urgent to act, to implement the fiscal, incomes and structural policy that the Italian economy both requires and is able to support. Together with monetary and exchange rate management, that policy is necessary in order to put the economy back on a path to stable growth of output and employment and to ensure Italy's place in European monetary union. It is not without cost, but the cost of doing nothing would be far greater. The erosion of the competitiveness of Italian products and the high level of interest rates are evidence of the damage that uncertainty and inaction are already doing to firms, employment and the public finances. The grip that is suffocating the vitality of this economy must be broken. The situation does not permit further delay.

Statement by the Governor, Carlo A. Ciampi,

at the Joint Annual Discussion of the Boards of Governors of the International Monetary Fund and the World Bank Group

Washington, 22 September 1992

I have the honour of addressing this meeting also on behalf of Piero Barucci, Minister of the Treasury. We welcome the entry into the Bretton Woods institutions of the newly independent states that have emerged from the former Soviet Union, as well as Switzerland, San Marino, and the Marshall Inslands. With the accession of these new members, the Fund and the Bank have become truly universal institutions. They are at the forefront in helping the world economy to cope with the challenges ahead.

In the industrial countries, the key problems are the unsatisfactory pace of economic activity and acute tensions in the foreign exchange markets. Inflation is declining and is now at historically low levels in several countries.

Within a medium-term framework, public sector deficits must be reduced in many countries – the most notable exception being Japan – so as to allow monetary policy to be geared to sustain balanced growth through lower interest rates in real terms. Structural reforms should be aimed at improving the functioning of labour markets and liberalizing trade. The opportunity for a rapid and successful conclusion of the Uruguay Round should not be missed; the European Community's decision to reform the Common Agricultural Policy is an important step in that direction.

Urgent action is required to overcome the present strains in the exchange markets, which affect both the US dollar and the European Monetary System. Divergences in the economic policies of the major countries have interacted with the uncertainty on the future of Europe.

Policy coordination and a more stable framework are of paramount importance in a world which in the last decade has seen extremely rapid financial deepening. Recent events affecting the European Monetary System have made clear that decisions concerning both economic policies and the structure of parities have to be taken in a highly concerted fashion, rooted in a truly cooperative spirit.

The positive outcome of the French referendum on the Maastricht Treaty has removed a major uncertainty as to the will of Europe to proceed toward economic and monetary union.

The political will to proceed with the project of European union has not weakened. It will be reinforced by a critical assessment of the problems with which Europe has been recently confronted.

Since the Danish referendum on the Maastricht Treaty, turbulence in the currency markets has hit the Italian economy in a phase of weak activity, declining inflation, and unsolved budgetary imbalances. After the general elections of early April, the new Government took office only at the beginning of July. By early August, measures to reduce the budget deficit for the current year by 1.5 per cent of GDP had been taken, a far-reaching program of privatization had been set in motion, and an important agreement between the trade unions and entrepreneurs had been promoted; the agreement removes wage indexation and moderates the growth of nominal incomes.

The weakening of the dollar, the strengthening of the deutsche mark, and the widening of interest rate differentials between the two currencies led to strong pressures in the exchange markets. The tensions in the European Monetary System were exacerbated by the nearing of the date fixed for the French referendum on the Maastricht Treaty. At the informal ECOFIN meeting which took place in Bath on 5 September, a solution to the problems of the exchange rate mechanism (ERM) was not achieved. The lira was particularly affected; on 13 September its parity was revised downward in conjunction with a reduction of interest rates in Germany. A more general realignment of parities in the European Monetary System, combined with a larger reduction in German interest rates, would have been more effective in tackling pressures which, as subsequently became evident, were not directed exclusively against the lira but involved the entire system. Those events happened while, in Italy, additional budgetary measures were in the process of being put into effect. In the week that followed, speculative pressures mounted further, reaching unprecedented dimensions, and led the UK authorities to suspend the participation of the pound in the ERM. In the wake of this decision, the Spanish peseta was devalued, and Italy suspended its intervention obligations in the ERM.

In order to prevent the adverse effects of devaluation, Italy must strengthen policies to curb cost and price pressures of domestic origin. On 17 September the Government announced restrictive budgetary measures equivalent to 5.8 per cent of GDP; they will generate a budget surplus, net of interest payments, of about 2.5 per cent of GDP in 1993. The deficit cut stems largely from structural reforms in key areas of public expenditure – social security, the health system, and employment in the public sector. The Government has reiterated its commitment to a rigorous incomes policy in the public sector and to fostering the full implementation of the agreement to moderate wages in the private sector.

The Italian Government is determined to resume the intervention obligations in the ERM. The parity of the lira will be established at a level consistent with the monetary discipline which represents the very essence of the European Monetary System.

Overcoming the present tensions among European currencies and further progress toward the establishment of Europe as an area of monetary stability represent basic conditions to foster economic recovery and to prevent the resurgence of inflationary pressures worldwide.

In Central and Eastern Europe, progress has been made in several countries in macroeconomic stabilization, price and trade liberalization, and market-oriented reforms. The tasks ahead remain momentous. Besides providing financial and technical assistance, industrial countries should support the transformation effort by eliminating trade barriers and expanding access to their markets. An important contribution in this respect is the Association Agreement between the European Community and Czechoslovakia, Hungary, and Poland, which should be promptly and fully implemented and could be extended to other countries. The newly independent states of the former Soviet Union should not overlook the benefits of a large unified market for their own prosperity.

For the developing countries at large, it is encouraging to see that, notwithstanding the slow pace of world demand, growth is expected to reach its highest level in more than a decade. However, conditions remain hard in many African countries, calling for effective support to reduce poverty and satisfy basic needs of the population. The restructuring of foreign debt and improved debt-service conditions have contributed to growth in the developing countries.

The cooperation between the two Bretton Woods institutions should be maintained and strengthened, particularly in the domain of structural reforms. At the same time, each institution should continue to emphasize its specific field of competence. The Fund should concentrate on stabilization efforts. The Bank should increasingly focus its lending activities on development projects, especially in basic human and physical infrastructure. The excellent World Development Report of this year highlights the positive links between growth and environmental protection; exploiting these links should be a key concern of the Bank's financial and technical assistance in the coming years.

Address by the Governor, Carlo A. Ciampi,

to the 35th National Congress of the Italian Forex Club

Cernobbio, 24 October 1992

"As the deadlines for closer European integration rapidly approach, our economy is passing through a difficult period, faced with pressing problems that must be addressed in any case. The issues we have examined in this Meeting for many years must be resolved swiftly and decisively by acting now, in the next few weeks."

I began my address to the Annual General Meeting of the Bank of Italy on 30 May with this appeal for action to be taken with the utmost urgency. Any meaningful attempt at remedial measures had been blocked for months by the expectation of parliamentary elections, and although the elections had been held at the beginning of April, a new Government had still not been formed; in the event, it was not to take office until the beginning of July.

In the meantime, doubts about the implementation of the plans for European monetary union were aroused by the rejection of the Maastricht Treaty in the Danish referendum at the beginning of June and accentuated by the run-up to the referendum in France, the debate in the United Kingdom and problems associated with German unification.

This led to a foreign exchange crisis of an intensity that was both unexpected and without precedent in the history of the EMS. It is these events, which are still unfolding, that I intend to re-examine today, with special reference to our economy; I shall concentrate on the domestic causes of the crisis, recall the way in which domestic and external factors interacted and try to draw lessons for the future.

Before I begin, however, I would like to comment on a number of aspects that relate more directly to your particular field of activity:

- despite the seriousness of the crisis, the temptation to reintroduce exchange controls did not prevail; the principle that foreign exchange markets should remain free to operate without restriction was not called into question;
- there was no waivering in the commitment to promote improvements in the working of the market, both by eliminating the causes of distortions and inefficiency, such as the tax on forward foreign exchange operations, and by fostering greater operational flexibility by exempting non-residents' lira deposits from reserve requirements and allowing banks to carry out repurchase agreements in foreign currencies with the central bank. Other innovations are imminent; for example, a few days ago the Bank of Italy presented the Treasury with a proposal to abolish the fixing procedure, which has been shown to amplify exchange rate fluctuations;
- the importance of information, professionalism and high ethical standards has proved to be even more fundamental at times of greatest tension; all too often, exchange rate pressure has been caused by information that was inaccurate, misleading, unfounded, frequently put about by anonymous "analysts" and sometimes exploited by intermediaries, especially those abroad, before its accuracy could be checked.

1. For years, Italy has made unequal progress towards achieving the two fundamental economic objectives of closer European integration and a reduction in the budget deficit, and there have sometimes been contradictions between the various strands of economic policy.

Important steps have been taken with the liberalization of capital movements and the lira's entry into the narrow fluctuation band of the EMS. Italy also made a significant contribution to the drafting of the Treaty on European Economic and Monetary Union.

Favourable cyclical conditions and access to abundant international credit offered an opportunity to speed up the restoration of sound public finances and reduce the costs involved, especially from the mid-eighties onwards, but the opportunity was not seized; indeed, it served rather to delay the process. At no time did the budget deficit amount to less than 10 per cent of gross domestic product. The deficit net of interest payments did decline from 1985 onwards, but 1992 will be the first year in which it will give way to a surplus.

Delay in the process of budgetary adjustment was compounded in the late eighties by increases in public and private sector labour costs in excess of those of our main European partners and by the slowness of important sections of industry to respond to heightened competitive pressure and to the need to modernize.

The contradictions inherent in the behaviour of the Government, employers and unions eventually had repercussions on the exchange rate of the lira, which had to bear most of the strain caused by the dichotomy between the lack of domestic adjustment and the coupling of our economy to Europe. In accordance with the spirit of the EMS and the plans for the future EMU, the maintenance of a stable exchange rate called for decisive action to reduce the budget deficit and a rigorously anti-inflationary incomes policy in the public sector, which would have a knock-on effect in the private sector. Insufficient attention was paid to these requirements, with the result that the very opposite occurred: the lack of appropriate budgetary measures and the absence of nominal wage restraint undermined the stability of the lira.

These themes – the call for action and concern at the serious consequences of inaction – have been a *leitmotiv* running through all the documents produced by the Bank of Italy in recent years. The repeated references to the urgent need for action sprang from our awareness of the risk that the lack of credible economic measures would sap confidence in the stability of the lira and, even more seriously, in the maintenance of the real value of financial assets.

The time factor was crucial in the approach the Government and Parliament had adopted for restoring the health of the economy and achieving economic convergence with the major European countries. The longer the delay in implementing appropriate budgetary, incomes and structural measures, the more likely it was that two unwelcome possibilities would become reality: first, a currency and financial crisis, a crisis of credibility and confidence in the stability of the exchange rate and interest rates and, secondly, a slower and less obvious but no less worrying erosion of competitiveness, with exchange rate discipline putting Italy at an increasing competitive disadvantage in terms of domestic unit costs.

In an economy in which all citizens have, for the first time, been given the unrestricted right to transfer funds abroad and to invest their savings in any financial instrument of their choosing, an economy where the public debt is large, highly liquid and held increasingly by foreign investors, the protection of savings and confidence in the ability of the state to administer its own finances are preconditions for any measures to restore the health of the economy and for the orderly operation of financial and foreign exchange markets.

2. If one reviews the events of the last few months, it becomes plain that our domestic crisis interacted with the crisis at international level. We Italians bear full responsibility for the difficulties in which we find ourselves, but the strains within Europe brought them to a head sooner than would otherwise have been the case.

For at least two years, markets abroad had felt the effects of conflicting economic policy stances in the leading industrial countries. In the United States, the need to revive the economy had led the authorities to reduce short-term interest rates to one of the lowest levels since the Second World War. In Germany, unification had caused an expansion in the budget deficit and an acceleration in wage growth, to which the Bundesbank had responded by raising official interest rates several times. The result was a depreciation of the dollar, an appreciation of the Deutschemark and strains within the EMS.

This underlying situation was compounded by doubts, suspicions and second thoughts when each of the European countries came to ratify the Maastricht Treaty. Uncertainty about European Union had the immediate consequence of highlighting the exchange rate and interest rate inconsistencies that had built up within the EMS over the years and which had not been tackled, owing to a lack of that willingness to undertake co-ordinated action that is necessary between economies that are already integrated in many respects, particularly as regards capital movements.

The events that unfolded from the end of May onwards can be summarized as follows.

The first phase, which extended from the Danish referendum on 2 June to the end of July, saw an intensification of the exchange rate tensions that had already appeared intermittently from the autumn of 1991 onwards. The Bank of Italy responded to the pressures on the lira by accepting exchange rate movements within the fluctuation band, intervening on an appropriate scale in the foreign exchange market, raising the premium on fixed-term advances from 0.5 to 1 percentage point on 4 June, and tightening liquidity, thus causing rates on the overnight interbank market to rise to 16 per cent. Meanwhile, rather than narrowing, the monetary policy divergence between the United States and Germany widened; the Federal Reserve reduced the discount rate to 3 per cent on 2 July, while the Bundesbank increased its corresponding rate to 8.75 per cent a fortnight later.

The resolution of Italy's political crisis and the new Government's declaration confirming exchange rate stability as the lynchpin of economic policy did not ease the tensions, which were also fueled by non-economic factors, some of them particularly dramatic and painful. The Bank of Italy raised official rates twice, on 5 and 16 July, increasing the discount rate from 12 to 13.75 per cent and the rate on fixed-term advances from 13 to 15.25 per cent. The Government's first act of economic policy was to tackle the problem of the 1992 budget deficit overshoot by issuing decrees containing corrective measures totaling around 30 trillion lire on 11 July.

There followed a brief respite on the foreign exchange markets, aided not only by the measures I have already described but also by concerted intervention by the central banks of the Group of Seven countries in support of the dollar and especially, in Italy, by the positive impact of the agreement on labour costs reached on 31 July. On 4 August the Bank reduced the official discount rate by half a point to 13.25 per cent.

Tensions reappeared towards the end of August, triggered by a further sharp depreciation of the dollar and a succession of opinion polls in France indicating greater opposition to the Maastricht Treaty than had been expected; the date of the French referendum, 20 September, was increasingly seen as pivotal, and it became the focus of international speculation. The lira was worse affected by this than the other currencies and was driven down to the lower limit of the EMS band. The difficulties were accentuated by the downgrading of the Italian Republic's rating in the international financial market and the adverse reaction of foreign creditors to the liquidation of EFIM.

Faced with this deterioration in the situation within the EMS, the main European countries held inflexibly to their positions, instead of moving towards a common solution. In France, the main concern was that any realignment of central rates before the referendum would jeopardise a positive result, while in Germany it was considered that conditions were not right for a reduction in interest rates.

Against this background, Italy's final attempt to hold out until the French referendum was entrusted to a renewed increase in both official and market interest rates – the discount rate was raised to 15 per cent on 4 September and market rates rose to over 30 per cent – and above all to further measures to reduce the budget deficit with immediate effect; in the event, however, these were not formulated until 17 September, after the devaluation.

In the meantime, the informal meeting of the Ecofin Council in Bath on Saturday, 5 September, had ended with no more than a sterile reiteration of rigid positions. The only action the twelve members of the Community took to counteract exchange rate tensions was to express their determination not to adjust central rates, a reaffirmation of the public declaration of 28 August, which had had little effect.

At the end of the week following the Ecofin meeting in Bath, Germany took the initiative to promote an adjustment of interest rates and central rates within the EMS, as it was concerned at the domestic monetary consequences of the liquidity created as a result of the obligation to finance unlimited interventions at the margins of the fluctuation band. Accordingly, on Saturday, 12 September, Germany and Italy proposed a realignment of central rates within the EMS coupled with a reduction in German interest rates. In requesting activation of the Community procedure, Germany and Italy declared themselves willing to revalue the mark by 3.5 per cent and to devalue the lira by an equal amount; the size of the reduction in German interest rates, which the Bundesbank undertook to implement by calling an emergency meeting of its Central Bank Council, would depend on the extent of the realignment of central rates and the scale of the average appreciation of the mark within the EMS. The implications of the dual proposal were not examined and discussed at a specially convened meeting of either the Ecofin or the Monetary Committee, contrary to the practice followed in almost all previous realignments; the decisions of the various countries to maintain their currencies, whether strong or weak, at unchanged central rates against the mark were collected by the Presidencies of the two Committees by telephone. In view of the limited nature of the overall realignment, the reduction in German interest rates was small.

This manner of proceeding and the imperfect results it produced were not well received by the markets, as subsequent events dramatically proved.

On the day after the realignment the lira moved into the upper part of the new band, and there were significant inflows of funds. At the same time, however, sterling came under heavy pressure, with sales building up to unprecedented levels and spreading to other currencies, including the lira. In the late evening of 16 September the British Government announced the suspension of sterling's participation in the ERM, the Spanish peseta was devalued by 5 per cent and Italy also found itself obliged to refrain temporarily from making compulsory interventions.

The turbulence within the EMS did not abate even after the French referendum had been won by a narrow margin. Some EMS currencies came under downward pressure as early as Monday, 21 September; the pressure on the French franc was particularly strong, despite the underlying soundness of the French economy. Only massive intervention by the French and German authorities in support of the franc and a public declaration of the extraordinary scale of their commitment enabled the currency to weather the storm and avoided the break-up of the European Monetary System.

3. This summary account of events since early June prompts reflections from three standpoints: *a)* that of a member of the European Community; *b)* that of the nation; and *c)* that of a monetary institution.

a) For decades we have been moving towards ever closer European integration. The step-by-step approach necessarily means that progress will not be simultaneous in all sectors. Following the unsuccessful attempt to create a European Defence Community, it was decided to give precedence to economic integration; more recently, the focus has switched to the monetary sphere. A phased sequence of steps is being followed, leading to a projected completion date in 1997, albeit with an awareness of the risks inherent in a prolonged monetary transition.

Even though these risks have now become reality, one point remains unshakable, and has been challenged by no one: namely, that the Single European Market will come into being formally on 1 January 1993. On that day the economic unification of Europe will take an extraordinary step forward, advancing from free trade in goods alone to free trade in goods, services and the factors of production, and to competition between different systems for the supply of goods and services, in accordance with the principles of mutual recognition and the harmonization of national regulations. The removal of barriers and an affirmative competition policy will yield substantial benefits in terms of efficiency, output, employment and prosperity.

The further decision the Community has taken, on the basis of political consensus among the Member States, is to consolidate economic union through increasingly stable exchange rates and, eventually, monetary union. The aim is to foster ever closer integration by reducing and ultimately eliminating the uncertainty inherent in having a multiplicity of currencies.

The plan for monetary union was drawn up before such events as the disintegration of the Soviet Union, the political upheaval and economic crisis in Eastern Europe and the unification of Germany. These developments further strengthened the political resolve to realize the plan by translating it into the Treaty of Maastricht, on which the parliaments and citizens of the twelve Member States are now passing judgement. The Treaty lays down the institutional conditions for the eventual introduction of a single currency managed by a single central bank, in which all member countries will participate on an equal footing, as envisaged in the Statute of the European System of Central Banks.

Germany is currently engaged in a monumental undertaking that goes well beyond the unification of the two strikingly dissimilar parts of the economy. The country's balance of payments on current account, which in the past was consistently in surplus, showed a deficit of DM 33 billion in 1991; a deficit of DM 23 billion has been estimated for 1992 and one of 19 billion is forecast for 1993. Notwithstanding this transfer of real resources from abroad, German interest rates remain high, thus conditioning interest rate developments internationally and heightening the risk of recession for the entire world economy, which for too long has had real interest rates far higher than the rate of growth in productive capacity. In effect, the rest of Europe and the rest of the world are contributing to the German effort through market mechanisms.

The European Monetary System remains the link between the Single Market and Monetary Union, the bridge across a difficult terrain; it has contributed immensely to the convergence of the Community's economies towards a state of equilibrium. The strains to which the EMS has been subjected in the last few months have stemmed not from any serious structural defects but from the improper way in which its rules have been interpreted recently. The fundamental rule, which remains valid but needs to be better applied, is that exchange rate and interest rate inconsistencies between countries should be avoided; when such inconsistencies arise they should be corrected through mutually agreed action on both fronts. For this to happen and at the same time for further economic convergence to be achieved through concerted policies, the various groups and committees of the twelve need to advance beyond the primarily consultative function they perform at present to carry out effective joint evaluation and exercise considerable influence on decisions, even though the decisions themselves remain the province of national institutions.

Freedom of capital movements and fixed or quasi-fixed exchange rates (as in the EMS) are not compatible with independent national monetary policies and they cannot coexist with them for long. The causes of fragility in the EMS have been aggravated by the fact that the liberalization of exchange controls has not been accompanied by any progress at all in harmonizing the taxation of financial assets and savings. The need for such harmonization has long been recognized, but so far it has not been satisfied; appropriate action must be taken, in order to eliminate one of the causes of destabilizing capital movements.

As I have said, in the short term the response to the European crisis lies in a more cooperative approach towards applying the existing rules of the EMS; in a longer-term perspective it will lie in the implementation and, if possible, acceleration of the design set forth in the Treaty of Maastricht. The reform the EMS really needs is for it to be transformed from an agreement for limiting exchange rate variations into a structure within which monetary policy progressively advances towards unification. This is what is laid down in the Treaty on European Union. The first institutional step is the creation of the European Monetary Institute on 1 January 1994.

Under the Treaty the construction of monetary union is an undertaking in which all Member States are to take part on an equal footing, even if different economies may enter the final stage at different times. Decisions concerning rights and duties, operating conditions and procedures, and membership of the Union must be taken jointly by all member countries, including those that are not in a position to participate in the Union from the outset. These countries must have a guarantee that they can enter the Union at any time on the basis of well-defined, mutually agreed preconditions.

b) What I have just said with regard to Europe has its corollary for Italy in the decision in favour of European integration, a decision that the Government and Parliament have confirmed by initiating the ratification of the Maastricht Treaty.

The reaffirmation of that choice has three implications: that Italy will be an active player in the single market that is about to come into effect, that it will re-enter the exchange rate mechanism of the EMS at the earliest possible opportunity and that it will maintain the frame of reference provided by European monetary union. The precondition for all three propositions is the rehabilitation of the public finances. The foreign exchange and financial crisis that has struck Italy arose because that rehabilitation is long overdue. The crisis can be fully overcome only if businessmen, savers and foreign creditors can be convinced that the restoration of sound public finances is under way, that clear and rigorous measures to this end have been taken, and that the task can be accomplished rapidly according to a definite timetable.

If this is not achieved, we will not reap the benefits of the single market in any lasting way, our permanent re-entry into the exchange rate mechanism will be delayed, and we would lose the very prospect of being part of a unified Europe. If this is not achieved, the Italian economy will slide back into the grip of inflation and stagnation from which we laboriously freed ourselves in the eighties.

As I have said on many occasions, devaluation does not solve the problems; it is a costly step that must be taken to correct an imbalance when the necessary therapy has not been applied in time. That we have been forced to resort to devaluation does not mean we have to abandon the objective of economic adjustment. The storm still raging around us has blown us off course, but it has not changed our final destination. Disappointment at losing hard-won ground in the fight against inflation must not turn into dejection. We need to rededicate ourselves to the goal, which is the adjustment of the Italian economy in all its aspects; we have to set a new course, taking account of the changed conditions.

In the framework that guided Italian economic policy until September, a lowering of the lira's central rate was envisaged as a possibility in the final stage of the process of convergence centred on fiscal and incomes policies; it was regarded as a contingency measure, an action that would be necessary if appreciable progress in convergence were not accompanied by a sufficient recovery of the intervening loss in competitiveness.

In the new framework that must now be defined for economic policy, devaluation is no longer somewhere down the road: it has already occurred. To prevent depreciation of the lira from feeding inflation, fiscal and incomes policies have to be applied more swiftly and stringently, and the dialogue between the two sides of industry must be brought to a conclusion, even if the difficulties have increased. No monetary measures can take the place of such action, which is essential for restoring confidence. If this action is taken, it will become fully apparent that the fears of coercive measures regarding government securities and restrictions on cross-border capital movements are unfounded.

The package of fiscal measures that the Government is enacting to reduce the 1993 borrowing requirement adds up to the considerable sum of 93 trillion lire. It centres on significant reforms in the main sectors of expenditure, particularly pensions, health services, local finance and public employment. Following Parliament's approval of the enabling law the day before yesterday, it is equally essential that the legislative decrees implementing the law be drawn up rapidly and that the Finance Law and other legislation in the package be adopted promptly. Firmness in applying the measures will have to be accompanied by closer monitoring of actual expenditure and revenue, so as to ensure the prompt enactment of any corrections that may prove necessary. Apart from the sheer size of the package, which is intended to produce a surplus of some 50 trillion lire on the budget net of interest payments, the success of the measures will depend crucially on their ability to revive full and lasting confidence in the overall action to adjust the Italian economy.

The ferocity of the markets has driven the external value of the lira down to a level below anything that could reasonably be required to restore Italian industry's price competitiveness. On the basis of monthly average exchange rates, competitiveness within the EMS improved by 14 per cent between May and October.

Changing the lira's central rate entails both costs and opportunities; it is up to all operators, both public and private, to behave in a way that minimizes the former and capitalizes on the latter. Speed and flexibility in adjusting to the new situation, in using intermediate instruments and objectives in different ways at different times while maintaining the final objectives unchanged, are of decisive importance.

As I have already remarked, the greatest dangers come from inflation. The effects of the devaluation on prices as a result of higher import costs can and must be limited to the initial impact. It is up to us to prevent them from turning into outright inflation through a spiral of increases leading from costs to prices to incomes and back to costs. In October the annual rate of increase in the cost of living slowed down further, from 5.2 to 5 per cent. In times of weak demand, as at present, it is in the interest of firms to use their new margins of international competitiveness not to increase unit profits by raising prices, but to recoup market share, expand output and increase their total profits. In this respect their interests coincide with those of labour, which in the new situation can aim at securing faster results on the employment front; for those currently in work, moreover, a temporary forgoing of immediate wage increases to offset the possible erosion of real income as a result of the devaluation's impact effect on consumer prices is a guarantee of job stability, a premise of lasting economic improvements.

c) After a short period of very pronounced depreciation, which saw the exchange rate against the Deutschemark fall to 980, the lira recovered to around 870-880 to the mark. On 8 October it was possible to reduce the rate on ordinary advances by half a percentage point. Yesterday, the official discount rate and the rate on fixed-term advances were both cut by one point to 14 per cent. Another step has thus been taken towards a level of interest rates consistent with more relaxed conditions in the foreign exchange and capital markets. Gradualism is essential: it is designed to avoid a reversal of the downward trend and to ensure that production and investment benefit from a lasting reduction in the cost of money.

At the same time as reducing official interest rates, the Bank of Italy enjoined credit intermediaries to make their lira lending consistent with the monetary equilibrium of the economy. This quantitative indication is intended to prevent the inflationary potential of the devaluation from finding an outlet in an excessive expansion of credit and hence of the money supply. The institutions' compliance will be closely monitored.

The Bank's action is aimed at fostering a reduction in the cost of money from the emergency levels reached in the middle of September, while reconciling this aim with the need to arrive at an exchange rate that will satisfy the requirements of competitiveness without being unjustifiably aggressive, with a view to the lira's subsequent re-entry into the ERM. We must not forget that the new central rate of the lira will have to be agreed with all the other countries participating in the ERM on the basis of economic fundamentals, as part of a credible grid of central rates.

The Bank of Italy's duty to provide the economy with a monetary anchor is especially important while the lira continues to float; under the long-established economic policy approach that was maintained until September, it performed this task primarily by keeping the lira slightly overvalued, in line with the decisions of the Government. The Bank of Italy is conscious of this institutional duty and is discharging it. In the third quarter the growth in the M2 money supply since the beginning of the year fell below the 7 per cent upper limit of the target range. The anti-inflationary rigour of monetary control was heightened between June and September by the high yields on financial assets that are alternatives to bank deposits.

The target range for the growth in M2 has been maintained at 5-7 per cent for 1993. The limit is a tight one, partly in consideration of the inflationary risk inherent in the fact that the lira is now clearly undervalued. The monetary stringency imposed on the economy is consistent with the economic policy objectives the Government has set itself for 1993: consumer price inflation is to be held down to 4.5 per cent to allow GDP to grow by 1.5 per cent in real terms. Achieving this apportionment between the price and quantity components of the growth in nominal GDP, on which the future economic and non-economic progress of our country crucially depends, will require good budgetary management and a sense of responsibility on the part of employers and unions.

We have lived through a difficult and painful period, and the dark days are not yet behind us.

The devaluation of the lira and other EMS currencies is now an established fact. The damaging aspect was not so much the change in central rates – an operation that is envisaged in a system of fixed but adjustable exchange rates – as the way in which it occurred and the implications this has for the EMS as a whole, its operational effectiveness and its role as a bridge to monetary union.

The potential of a structure or group, at any level, emerges precisely at times of difficulty, in its ability to grasp the opportunities offered by changed circumstances, to turn failures to advantage.

Until recently, the exchange rate was used primarily as a means of imposing discipline, but the depreciation of the lira means that it can now become a means of fostering growth. The opportunity created by the devaluation must be exploited to expand production and investment, not to increase prices.

The country's institutions, the two sides of industry and the financial system must direct their energies towards curbing domestic demand and inflation, each within their own sphere: Parliament and the Government by rapidly approving and fully implementing the fiscal adjustment measures; firms and workers by holding down costs and redoubling their efforts in the production and sale of goods and services; the Bank of Italy by limiting the growth of the money supply; and credit institutions by moderating the expansion of credit and, above all, by giving priority to supporting production and investment.

If we are able to do this, Italy will overcome its present economic difficulties, protect savings and safeguard the employment prospects of the present and future generations; we will then be able to look back on these months with satisfaction at having succeeded in turning today's events into a source of progress and prosperity.

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.

.... 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)				
1986	2.9	2.7	2.2	2.5	3.9	2.9	3.3
1987	3.1	4.3	1.4	2.3	4.8	3.1	4.2
1988	3.9	6.3	3.5	4.5	4.3	4.1	5.0
1989	2.5	4.8	4.0	4.1	2.3	2.9	2.3
1990	0.8	5.3	5.0	2.2	1.0	2.2	–0.5
1991	–1.2	4.4	3.6	1.1	–2.2	1.4	–1.7
1991 – 1st qtr.	–0.8	2.0	2.1	..	–0.6	0.3	–1.4
2nd "	0.4	0.7	–0.1	0.7	–0.7	0.6	1.3
3rd "	0.3	0.5	–0.1	1.0	0.2	0.3	0.1
4th "	0.1	–0.1	–0.5	0.2	–0.1	0.4	..
1992 – 1st qtr.	0.7	1.1	1.9	0.8	–0.8	0.6	0.3
2nd "	0.4	0.3	–0.2	0.2	–0.1	....	0.2
			GNP deflator (% changes on previous period; seasonally adjusted data)				
1986	2.7	1.8	3.3	5.3	3.5	7.9	2.4
1987	3.2	..	1.9	2.9	4.9	6.0	4.7
1988	3.8	0.4	1.5	2.8	6.5	6.6	4.6
1989	4.4	1.8	2.6	3.1	7.1	6.2	4.8
1990	4.5	2.0	3.4	3.1	6.4	7.5	3.3
1991	4.0	1.9	4.5	2.8	6.9	7.3	2.7
1991 – 1st qtr.	1.2	0.3	1.0	1.1	1.0	1.5	1.0
2nd "	0.9	0.5	2.1	0.7	3.5	1.8	0.5
3rd "	0.6	–0.2	1.3	0.5	1.2	1.8	0.2
4th "	0.6	1.5	0.7	1.0	0.6	1.1	0.2
1992 – 1st qtr.	0.8	–0.1	1.0	0.9	1.3	0.7	0.1
2nd "	0.7	0.7	1.2	....	1.8	....	0.2
			Current account balance (billions of dollars; seasonally adjusted data)				
1986	–145.4	85.6	40.6	1.8	0.1	2.5	–8.2
1987	–163.5	87.0	45.7	–5.1	–7.6	–1.5	–8.8
1988	–126.7	79.0	50.7	–4.7	–28.8	–5.6	–12.6
1989	–101.1	57.9	57.4	–4.7	–35.6	–10.8	–19.3
1990	–90.4	35.9	46.4	–9.5	–29.8	–14.7	–22.0
1991	–3.7	78.1	–20.4	–6.0	–11.4	–20.9	–25.5
1991 – 1st qtr.	12.2	16.9	–7.1	–4.4	–5.2	–3.2	–5.6
2nd "	2.4	18.8	–5.9	–1.0	–0.9	–5.0	–6.0
3rd "	–11.1	19.5	–3.2	–0.8	–2.3	–6.9	–6.6
4th "	–7.2	22.9	–4.2	0.2	–3.0	–5.8	–7.3
1992 – 1st qtr.	–5.9	28.6	–7.5	–0.9	–4.7	–4.4	–6.1
2nd "	(–17.8)	28.6	–6.1	(0.5)	(–4.5)	–6.4	–6.3

Table a2

Industrial production

(% changes on previous period; seasonally adjusted data)

	US	Japan	Germany	France	UK	Italy	Canada
1986	1.0	–0.2	1.9	1.1	2.4	3.6	–0.8
1987	4.9	3.4	0.4	1.9	3.2	3.9	4.9
1988	5.4	9.3	3.6	4.1	3.6	6.0	5.3
1989	2.6	6.0	4.8	3.7	0.3	3.1	–0.4
1990	1.0	4.7	5.2	1.5	–0.5	0.1	–4.2
1991	–1.9	2.3	3.0	0.4	–3.0	–2.1	–4.1
1990 – 3rd qtr.	1.0	2.2	3.2	1.3	–2.9	0.6	–1.8
4th "	–1.9	1.4	0.3	–2.5	–1.5	–2.5	–2.7
1991 – 1st qtr.	–2.5	0.2	1.7	0.6	–0.2	..	–2.0
2nd "	0.6	–0.6	0.2	0.7	–1.4	–0.5	1.1
3rd "	1.6	0.3	–0.5	0.6	0.9	–0.3	0.8
4th "	–0.2	–0.9	–1.6	–0.4	–0.1	–0.2	–0.9
1992 – 1st qtr.	–0.8	–2.8	2.7	0.1	–0.7	2.1	–0.3
2nd "	1.3	–2.2	–1.9	–0.2	–0.3	–1.0	0.3
3rd "	(0.5)	....	....	....	....	....	....
1991 – Sept.	0.3	0.7	0.2	–1.1	0.4	2.7	0.6
Oct.	..	0.2	..	1.2	0.4	–2.5	–0.4
Nov.	–0.3	–0.1	0.4	–0.9	–0.2	3.2	–0.5
Dec.	–0.6	–1.5	–4.1	–1.0	–0.3	–4.0	–1.4
1992 – Jan.	–0.8	–0.4	5.4	1.7	–1.0	3.4	0.2
Feb.	0.6	–0.7	0.9	–0.8	1.2	0.8	0.9
Mar.	0.4	–2.8	–1.5	–0.2	–0.8	–0.4	0.1
Apr.	0.4	0.3	–0.7	1.3	0.5	–1.3	0.1
May	0.8	–1.7	0.1	–1.5	–1.0	2.2	–0.4
June	–0.4	2.2	–1.4	–0.4	0.2	–3.2	0.2
July	0.8	0.4	–0.1	....	0.9	1.2	0.1
Aug.	(–0.4)	(–4.2)	(1.5)	....	–0.3	....	....
Sept.	(–0.2)	....	....	....	....	....	....

Table a3

Consumer prices

(% changes on corresponding period)

	US	Japan	Germany	France	UK	Italy	Canada
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
1991	4.2	3.3	3.5	3.1	5.8	6.4	5.6
1990 – 3rd qtr.	5.6	2.6	2.7	3.4	10.4	6.5	4.2
4th "	6.2	3.7	3.0	3.6	10.0	6.7	4.9
1991 – 1st qtr.	5.3	3.8	2.7	3.4	8.7	6.4	6.5
2nd "	4.9	3.4	3.1	3.2	6.0	6.6	6.3
3rd "	3.9	3.2	4.1	3.0	4.8	6.4	5.7
4th "	3.0	2.8	3.9	2.9	4.1	6.0	4.1
1992 – 1st qtr.	2.9	1.8	4.3	3.1	4.1	5.8	1.6
2nd "	3.1	2.2	4.5	3.1	4.2	....	1.4
3rd "	3.1	....	3.5	2.7	3.6	....	1.3
1991 – Sept.	3.3	2.7	3.9	2.6	4.1	6.3	5.4
Oct.	2.9	2.6	3.5	2.5	3.6	6.0	4.4
Nov.	3.0	3.1	4.2	3.0	4.3	6.0	4.2
Dec.	3.1	2.7	4.2	3.1	4.4	6.1	3.8
1992 – Jan.	2.6	1.7	4.0	3.0	4.1	6.1	1.5
Feb.	2.8	1.9	4.3	3.0	4.1	5.8	1.6
Mar.	3.2	1.8	4.8	3.2	4.0	5.5	1.6
Apr.	3.2	2.4	4.6	3.1	4.3	5.4	1.7
May	3.0	2.0	4.6	3.2	4.3	....	1.4
June	3.1	2.2	4.3	3.0	3.9	....	1.1
July	3.2	1.5	3.3	2.9	3.7	....	1.3
Aug.	3.1	1.7	3.5	2.7	3.6	....	1.2
Sept.	3.0	....	3.6	2.6	3.6	....	1.3

Table a4

Wholesale prices

(% changes on corresponding period)

	US	Japan	Germany	France	UK	Italy	Canada
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
1991	0.2	0.2	1.6	–1.3	5.6	3.3	–1.0
1990 – 3rd qtr.	3.6	0.9	0.8	–1.4	6.0	4.0	0.1
4th "	6.2	1.9	0.8	0.7	5.8	4.0	1.9
1991 – 1st qtr.	2.6	1.6	1.7	0.7	6.1	4.2	1.2
2nd "	1.7	0.4	1.4	–0.7	5.9	3.9	–0.5
3rd "	–0.2	..	1.8	–1.5	5.5	3.1	–1.6
4th "	–3.0	–1.3	1.6	–3.6	5.0	2.1	–3.2
1992 – 1st qtr.	–1.3	–1.8	1.5	–3.0	4.5	1.4	–2.4
2nd "	0.3	–1.4	1.7	–1.1	3.6	2.0	–0.2
3rd "	(0.9)	(–1.0)	(–0.9)	....	....	....	....
1991 – Sept.	–1.9	–0.4	1.0	....	5.4	2.7	–2.4
Oct.	–3.7	–0.9	0.7	....	5.0	2.1	–3.0
Nov.	–3.1	–1.3	2.2	....	5.1	2.3	–3.3
Dec.	–2.3	–1.6	1.8	....	4.8	1.9	–3.5
1992 – Jan.	–2.9	–2.2	1.0	....	4.5	1.3	–3.6
Feb.	–1.0	–1.6	1.3	....	4.4	1.6	–2.2
Mar.	–0.1	–1.4	2.2	....	4.5	1.5	–1.4
Apr.	0.2	–1.2	2.3	....	3.8	1.8	–0.9
May	0.2	–1.4	1.7	....	3.5	2.0	–0.1
June	0.5	–1.5	1.2	....	3.5	2.1	0.3
July	0.8	–1.2	–0.9	....	3.4	....	0.6
Aug.	(0.8)	(–1.1)	(–0.7)	....	(3.2)	....	....
Sept.	(1.2)	(–0.6)	(–1.2)	....	....	....	....

Table a5

Short-term interest rates

	US	Japan	Germany	France	UK	Italy	Canada
				Official reference rates *(end-of-period data)*			
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	6.50	6.00	6.00	9.25	14.00	12.50	11.78
1991 – Sept.	5.00	5.50	7.50	9.00	10.50	11.50	8.68
Oct.	5.00	5.50	7.50	8.75	10.50	11.50	8.17
Nov.	4.50	5.00	7.50	9.25	10.50	11.50	7.69
Dec.	3.50	4.50	8.00	9.60	10.50	12.00	7.67
1992 – Jan.	3.50	4.50	8.00	9.60	10.50	12.00	7.08
Feb.	3.50	4.50	8.00	9.60	10.50	12.00	7.56
Mar.	3.50	4.50	8.00	9.60	10.50	12.00	7.65
Apr.	3.50	3.75	8.00	9.60	10.50	12.00	6.85
May	3.50	3.75	8.00	9.60	10.00	12.00	6.50
June	3.50	3.75	8.00	9.60	10.00	12.00	5.91
July	3.00	3.25	8.75	9.60	10.00	13.75	5.50
Aug.	3.00	3.25	8.75	9.60	10.00	13.25	5.11
Sept.	3.00	3.25	8.25	9.60	9.00	15.00	5.69
				Money market rates *(period averages)*			
1988	6.67	4.05	4.28	7.94	10.34	–	10.94
1989	8.11	5.33	7.07	9.40	13.89	12.83	12.22
1990	7.49	7.59	8.43	10.32	14.77	13.45	11.47
1991	5.37	7.33	9.18	9.62	11.53	12.47	7.42
1991 – Sept.	5.22	6.83	9.22	9.43	10.29	11.61	8.34
Oct.	4.99	6.44	9.33	9.33	10.40	11.46	7.79
Nov.	4.56	6.24	9.37	9.54	10.48	11.63	7.41
Dec.	4.07	6.11	9.51	10.11	10.80	12.47	7.42
1992 – Jan.	3.80	5.26	9.47	9.98	10.66	12.00	7.04
Feb.	3.84	5.34	9.55	10.05	10.37	12.17	7.25
Mar.	4.04	5.13	9.65	10.12	10.62	12.25	7.24
Apr.	3.75	4.69	9.70	10.04	10.60	12.38	6.72
May	3.63	4.69	9.73	9.97	10.07	12.38	6.08
June	3.66	4.63	9.70	10.11	9.99	13.38	5.60
July	3.21	4.39	9.73	10.22	10.15	15.54	5.17
Aug.	3.13	4.07	9.83	10.39	10.36	15.22	4.82
Sept.	2.91	4.12	9.43	11.12	9.99	17.54	7.37

Table a6

Long-term interest rates and share price indices

(period averages)

	US	Japan	Germany	France	UK	Italy	Canada
				Bond rates			
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
1991	7.86	6.40	8.64	9.05	9.92	11.37	8.97
1991 – Sept.	7.65	6.14	8.70	8.89	9.54	11.24	9.59
Oct.	7.53	5.89	8.60	8.80	9.62	11.02	9.12
Nov.	7.42	5.89	8.60	8.81	9.68	11.06	9.18
Dec.	7.09	5.62	8.50	8.79	9.56	11.25	8.97
1992 – Jan.	7.03	5.29	8.10	8.44	9.34	10.98	8.92
Feb.	7.32	5.40	8.10	8.48	9.21	10.93	8.97
Mar.	7.54	5.38	8.10	8.64	9.54	10.94	9.28
Apr.	7.48	5.57	8.20	8.70	9.33	11.05	9.51
May	7.39	5.54	8.30	8.62	8.99	11.04	9.17
June	7.26	5.43	8.30	8.74	9.16	11.61	8.87
July	6.84	5.11	8.30	8.88	8.88	12.49	8.21
Aug.	6.59	4.86	8.40	9.03	(9.17)	12.48	8.19
Sept.	6.42	4.87	8.00	(8.76)	(9.14)	13.54	8.53
				Share price indices (1975=100)			
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
1991	441.69	591.12	305.86	643.90	892.08	854.50	346.95
1991 – Sept.	454.58	571.32	311.87	672.76	951.24	846.30	338.79
Oct.	454.25	600.02	301.31	671.85	935.50	813.10	351.58
Nov.	453.12	578.01	303.50	667.69	909.23	789.90	344.85
Dec.	456.24	543.69	293.34	633.65	869.13	767.00	351.24
1992 – Jan.	488.52	522.52	302.96	676.62	903.81	826.12	359.61
Feb.	484.39	505.33	320.21	702.38	915.56	831.80	358.20
Mar.	478.31	472.21	325.69	717.26	900.79	786.94	341.21
Apr.	478.34	415.41	326.63	729.83	920.41	777.47	335.56
May	487.02	440.45	328.65	750.56	984.70	753.28	338.79
June	479.37	416.56	327.24	722.58	946.79	734.74	338.77
July	487.59	401.28	310.40	676.10	880.19	653.07	344.34
Aug.	490.70	387.51	282.65	651.85	837.52	620.85	....
Sept.	491.30	440.40	279.80	657.50	869.10	566.90	....

Table a7

Interest rates on international markets and US dollar premium/discount

(period averages)

	US dollar	Japanese yen	Deutsche-mark	Pound sterling	Lira	US dollar	Japanese yen	Deutsche-mark	Pound sterling	Lira
	Rates on 3-month Eurodeposits					**Rates on 12-month Eurodeposits**				
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
1991	5.86	7.22	9.14	11.45	11.52	6.23	6.77	9.26	11.01	11.69
1991 – Sept. ...	5.49	6.61	9.13	10.23	11.25	5.81	6.19	9.31	10.08	11.66
Oct.	5.34	6.32	9.30	10.34	11.08	5.48	5.77	9.33	10.14	11.35
Nov.	4.96	6.11	9.35	10.42	11.34	5.10	5.62	9.36	10.29	11.32
Dec.	4.50	5.90	9.53	10.72	12.28	4.60	5.44	9.46	10.60	11.99
1992 – Jan.	4.10	5.11	9.41	10.57	11.71	4.37	4.77	9.24	10.38	11.74
Feb.	4.12	5.12	9.51	10.31	11.76	4.52	4.78	9.29	10.09	11.70
Mar.	4.32	4.87	9.60	10.55	11.86	4.92	4.65	9.50	10.59	11.84
Apr.	4.08	4.60	9.64	10.47	11.93	4.59	4.58	9.56	10.44	12.04
May	3.90	4.63	9.68	9.99	11.98	4.45	4.54	9.62	9.89	12.11
June ...	3.85	4.51	9.61	9.92	12.98	4.38	4.41	9.53	9.83	12.96
July	3.35	4.25	9.66	10.06	15.11	3.71	4.04	9.62	10.02	14.51
Aug.	3.28	3.83	9.74	10.30	14.83	3.56	3.55	9.70	10.41	14.71
Sept. ...	3.12	3.88	9.14	9.84	16.98	3.33	3.70	8.94	9.66	15.19
	3-month US dollar premium (–)/discount (+)					**12-month US dollar premium (–)/discount (+)**				
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
1991		–1.36	–3.28	–5.59	–5.66		–0.55	–3.04	–4.78	–5.47
1991 – Sept. ...		–1.12	–3.64	–4.74	–5.76		–0.38	–3.50	–4.27	–5.85
Oct.		–0.98	–3.96	–5.00	–5.74		–0.29	–3.85	–4.66	–5.87
Nov.		–1.15	–4.39	–5.46	–6.38		–0.52	–4.26	–5.19	–6.22
Dec.		–1.40	–5.03	–6.22	–7.78		–0.84	–4.86	–6.00	–7.39
1992 – Jan.		–1.01	–5.31	–6.47	–7.61		–0.40	–4.87	–6.01	–7.37
Feb.		–1.00	–5.39	–6.19	–7.64		–0.26	–4.77	–5.57	–7.18
Mar.		–0.55	–5.28	–6.23	–7.54		0.27	–4.58	–5.67	–6.92
Apr.		–0.52	–5.56	–6.39	–7.85		0.01	–4.97	–5.85	–7.45
May		–0.73	–5.78	–6.09	–8.08		–0.09	–5.17	–5.44	–7.66
June ...		–0.66	–5.76	–6.07	–9.13		–0.03	–5.15	–5.45	–8.58
July		–0.90	–6.31	–6.71	–11.76		–0.33	–5.91	–6.31	–10.80
Aug.		–0.55	–6.46	–7.02	–11.55		0.01	–6.14	–6.85	–11.15
Sept. ...		–0.76	–6.02	–6.72	–13.86		–0.37	–5.61	–6.33	–11.86

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	
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
1991	1,241.6	9.2256	747.65	219.87	2,187.4	865.30	1,698.8	1,534.4	353.60
1990 – 3rd qtr.	1,177.4	8.1138	738.52	220.24	2,191.0	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 "	1,287.6	9.3046	742.35	219.12	2,198.2	873.10	1,722.7	1,527.6	368.35
3rd "	1,303.1	9.5473	746.55	219.68	2,192.5	857.45	1,742.1	1,532.3	354.50
4th "	1,225.7	9.4589	752.21	220.32	2,170.4	853.07	1,697.3	1,535.3	353.60
1992 – 1st qtr.	1,219.1	9.4753	752.13	221.03	2,155.4	836.94	1,692.6	1,536.3	341.70
2nd "	1,217.2	9.3406	754.00	223.76	2,195.8	824.11	1,692.0	1,546.4	342.36
3rd "	1,134.0	9.0867	774.73	228.59	2,156.0	870.71	1,647.2	1,565.5	348.50
1991 – Sept.	1,269.9	9.4354	747.63	219.67	2,188.0	854.99	1,718.9	1,532.6	354.50
Oct.	1,263.8	9.6714	747.70	219.32	2,176.6	854.56	1,721.3	1,531.3	357.50
Nov.	1,221.8	9.4253	753.32	220.47	2,173.1	851.02	1,692.0	1,537.5	366.25
Dec.	1,185.6	9.2481	756.30	221.33	2,160.5	853.42	1,669.4	1,537.7	353.60
1992 – Jan.	1,190.8	9.5039	753.71	220.99	2,152.8	848.21	1,678.1	1,536.4	354.10
Feb.	1,216.6	9.5356	751.25	220.71	2,161.6	835.33	1,691.6	1,536.0	353.25
Mar.	1,248.4	9.3932	751.44	221.36	2,152.4	827.65	1,705.2	1,536.4	341.70
Apr.	1,241.6	9.3011	752.88	222.63	2,170.9	818.24	1,701.8	1,542.1	336.35
May	1,220.5	9.3377	752.78	223.95	2,210.2	818.94	1,694.2	1,546.7	337.50
June	1,191.0	9.3808	756.18	224.66	2,206.4	834.41	1,681.3	1,550.2	342.36
July	1,129.9	8.9845	757.74	224.58	2,167.8	846.76	1,631.3	1,546.9	357.90
Aug.	1,102.6	8.7278	759.68	223.92	2,138.8	848.28	1,605.8	1,543.7	340.70
Sept.	1,168.1	9.5362	806.87	237.23	2,160.0	917.18	1,702.9	1,605.8	348.50

Table a9

Nominal effective exchange rates

(period averages; indices, 1987=100)

	US	Canada	Japan	Germany	France	UK	Italy	Switzerland
1986	112.8	98.8	91.6	94.6	100.3	101.9	100.6	95.6
1987	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1988	92.9	106.1	111.0	99.4	98.1	105.9	96.8	99.1
1989	96.4	112.1	105.6	98.6	97.1	102.8	97.7	93.9
1990	92.8	112.1	95.7	103.1	101.4	101.2	99.1	99.1
1991	90.9	113.8	103.3	101.9	99.5	101.6	97.6	97.5
1990 – 3rd qtr.	91.8	113.0	94.3	102.8	101.5	104.5	99.1	101.3
4th "	87.2	110.4	102.7	104.0	102.1	104.3	98.4	101.2
1991 – 1st qtr.	88.4	111.5	101.1	103.8	100.8	104.0	98.5	100.3
2nd "	93.1	114.4	102.1	100.7	98.9	101.3	97.4	98.1
3rd "	93.1	115.0	103.3	100.9	98.8	100.5	97.0	95.8
4th "	89.1	114.4	106.9	102.4	99.6	100.5	97.5	95.9
1992 – 1st qtr.	89.7	110.1	108.0	102.6	100.1	100.0	97.5	94.1
2nd "	90.3	108.5	106.4	102.6	101.1	101.9	97.1	92.4
3rd "	86.5	106.3	107.6	105.4	102.8	100.3	96.4	97.4
1991 – Sept.	91.5	115.1	104.3	101.4	99.0	100.8	97.3	95.9
Oct.	90.3	115.7	107.2	101.3	98.9	100.1	97.3	95.8
Nov.	88.9	114.8	106.6	102.4	99.7	100.6	97.4	95.6
Dec.	88.0	112.6	106.8	103.4	100.3	100.8	97.6	96.3
1992 – Jan.	87.7	111.4	109.7	103.0	100.2	100.3	97.5	95.5
Feb.	89.6	109.5	108.8	102.5	99.9	100.3	97.6	93.9
Mar.	91.9	109.4	105.6	102.3	100.1	99.5	97.4	92.9
Apr.	91.7	109.7	104.6	102.5	100.6	100.8	97.2	91.7
May	90.6	108.1	106.3	102.4	101.2	102.4	97.2	91.7
June	88.7	107.7	108.2	102.9	101.5	102.5	97.0	93.7
July	86.8	107.2	107.2	104.3	102.3	102.2	97.9	95.9
Aug.	86.1	107.2	105.8	105.3	102.5	101.6	98.3	96.7
Sept.	86.4	104.5	109.9	106.5	103.7	97.1	93.0	99.5

Table a10

Real effective exchange rates

(period averages; indices, 1987=100)

	US	Canada	Japan	Germany	France	UK	Italy	Switzerland
1986	110.2	98.0	96.2	95.6	98.8	98.5	98.0	98.2
1987	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1988	94.1	107.3	107.1	98.5	98.9	108.0	97.3	98.9
1989	99.6	110.4	99.5	96.6	97.3	105.5	99.6	93.9
1990	97.9	107.1	88.9	100.2	100.6	108.1	103.5	98.2
1991	95.6	106.5	96.7	99.7	97.4	113.3	104.2	95.2
1990 – 2nd qtr.	100.1	109.5	84.6	100.1	101.3	105.5	103.8	98.6
3rd "	96.9	107.6	87.5	99.9	100.6	112.1	103.6	100.5
4th "	94.5	103.1	94.3	100.6	100.1	111.5	103.6	98.4
1991 – 1st qtr.	93.3	105.6	94.4	100.9	98.9	113.8	105.1	97.8
2nd "	97.4	107.7	95.9	98.0	97.3	113.3	103.7	95.9
3rd "	97.7	107.0	96.7	99.1	96.5	112.7	103.5	93.6
4th "	93.9	105.7	99.7	100.7	97.0	113.3	104.4	93.5
1992 – 1st qtr.	93.9	102.6	100.7	101.1	97.5	114.3	105.1	91.3
2nd "	95.1	100.8	98.0	101.3	98.1	116.8	104.6	89.5
1991 – July	98.7	107.5	97.1	98.4	96.4	112.0	103.1	93.6
Aug.	98.3	106.8	95.6	99.1	96.6	112.9	103.4	93.9
Sept.	96.2	106.8	97.5	99.8	96.5	113.2	103.9	93.5
Oct.	95.3	106.8	99.9	99.7	96.1	112.5	104.0	93.5
Nov.	93.8	105.9	99.3	100.7	96.9	113.3	104.4	93.0
Dec.	92.4	104.3	99.9	101.8	97.9	114.0	104.7	93.9
1992 – Jan.	91.8	103.4	102.5	101.5	97.6	114.3	105.0	92.7
Feb.	93.8	102.2	101.3	101.0	97.3	114.5	105.3	91.0
Mar.	96.0	102.2	98.2	101.0	97.5	114.2	104.9	90.1
Apr.	96.0	102.2	96.9	101.2	97.7	116.0	104.8	89.0
May	95.4	100.5	97.9	101.1	98.2	117.3	104.7	88.9
June	94.0	99.8	99.3	101.5	98.5	117.2	104.5	90.5
July	92.0	99.3	98.2	102.9	99.4	116.9	105.3	92.4

Table a11

Real effective intra-EC exchange rates

(period averages; indices, 1987=100)

	Belgium	France	Germany	UK	Netherlands	Italy	Spain
1986	101.8	100.6	97.6	101.8	100.3	99.8	103.3
1987	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1988	97.9	99.3	98.9	109.2	98.3	97.5	103.8
1989	100.1	98.1	97.2	108.1	98.7	100.4	109.2
1990	100.4	98.9	97.5	105.3	96.9	102.0	110.0
1991	97.8	96.2	97.9	112.2	95.2	103.2	110.3
1990 – 2nd qtr.	100.2	99.8	97.6	103.0	96.3	102.4	111.0
3rd "	100.7	98.5	96.6	108.7	96.3	101.7	110.7
4th "	100.4	98.0	97.4	108.1	97.4	101.6	109.6
1991 – 1st qtr.	98.1	96.7	97.8	110.4	96.2	103.1	111.1
2nd "	97.8	96.8	97.1	113.5	94.4	103.4	110.9
3rd "	97.5	95.9	98.1	113.0	95.2	103.0	110.0
4th "	97.9	95.5	98.7	111.7	95.1	103.1	109.4
1992 – 1st qtr.	97.0	95.8	98.9	112.4	94.1	103.5	109.9
2nd "	96.8	96.2	98.5	114.2	93.6	102.7	109.6
1991 – July	97.2	96.2	97.9	113.1	95.2	103.1	109.8
Aug.	97.6	95.9	98.0	113.1	95.2	102.9	110.2
Sept.	97.9	95.5	98.3	112.7	95.2	103.1	110.0
Oct.	98.0	95.2	98.5	112.2	95.1	103.4	109.6
Nov.	98.4	95.4	98.6	111.6	95.3	103.1	109.7
Dec.	97.3	96.0	99.1	111.4	94.8	102.8	108.8
1992 – Jan.	97.2	95.7	99.1	111.9	94.5	103.2	109.7
Feb.	96.9	95.7	98.8	112.6	94.1	103.8	110.5
Mar.	96.9	95.9	98.9	112.6	93.8	103.5	109.6
Apr.	97.0	95.9	98.7	113.9	93.4	103.1	109.6
May	96.6	96.3	98.3	114.7	93.7	102.7	109.8
June	96.8	96.3	98.5	114.0	93.8	102.3	109.4
July	97.3	96.5	98.7	111.9	94.3	102.3	108.7

Table a12

External position of the Italian credit system

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

VIS-A-VIS	1991-Q4	1992-Q1	1992-Q2
Industrial countries	(210,468)	(194,877)	(197,510)
OPEC countries	(7,370)	(8,100)	(8,418)
Other developing countries	(10,410)	(10,539)	(10,495)
of which: Latin America	(5,924)	(6,018)	(6,107)
Africa	(1,334)	(1,295)	(1,250)
Asia	(2,697)	(2,801)	(2,610)
Middle East	(454)	(425)	(529)
Eastern Europe	(8,871)	(9,664)	(9,281)
Offshore centres	(24,011)	(24,541)	(26,922)
International organizations	(2,616)	(3,387)	(3,396)
Total	**(263,746)**	**(251,108)**	**(256,022)**
Memorandum item:			
Argentina	(1,750)	(1,925)	(1,842)
Bolivia	(5)	(11)	(5)
Brazil	(1,090)	(1,127)	(1,222)
Chile	(147)	(148)	(152)
Colombia	(127)	(118)	(223)
Ivory Coast	(36)	(20)	(28)
Ecuador	(175)	(174)	(172)
Philippines	(130)	(128)	(119)
Yugoslavia	(361)	(349)	(537)
Morocco	(564)	(559)	(491)
Mexico	(2,191)	(2,171)	(2,078)
Nigeria	(978)	(1,012)	(954)
Peru	(116)	(119)	(132)
Uruguay	(62)	(62)	(61)
Venezuela	(780)	(813)	(887)
Total	**(8,512)**	**(8,736)**	**(8,903)**
Albania	(69)	(89)	(89)
Bulgaria	(653)	(681)	(693)
Czechoslovakia	(117)	(119)	(106)
Poland	(1,771)	(1,808)	(1,776)
Romania	(11)	(35)	(26)
Hungary	(406)	(329)	(316)
Ex-USSR	(5,843)	(6,602)	(6,275)

Sources and uses of income

(% changes on previous period)

	SOURCES			USES					
				Gross fixed investment			House-holds' consum-ption	Other domestic uses	Exports
	GDP	Imports	Total	Building	Machinery equipment and vehicles	Total			
At 1985 prices									
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	4.7
1988	4.1	7.0	4.6	2.3	11.6	6.9	4.2	2.4	5.4
1989	2.9	7.6	3.9	3.6	4.9	4.3	3.5	–1.4	8.8
1990	2.2	7.9	3.4	3.4	3.1	3.3	2.8	–0.2	7.8
1991	1.4	2.9	1.7	1.2	0.7	0.9	2.8	2.4	–0.8
1990 – 1st qtr.	0.7	3.4	1.3	2.0	0.5	1.2	0.6	4.9	0.8
2nd "	0.1	3.3	0.7	–0.9	–0.7	–0.8	0.9	–4.2	5.6
3rd "	1.0	0.9	1.0	–0.6	0.5	..	0.9	3.8	0.3
4th "	–0.2	–0.3	–0.2	0.6	–1.1	–0.3	0.8	–5.6	0.8
1991 – 1st qtr.	0.3	–0.8	0.1	–0.1	–1.9	–1.0	0.6	1.1	–0.9
2nd "	0.6	2.6	1.0	1.4	1.3	1.4	0.7	8.5	–3.3
3rd "	0.3	1.1	0.5	0.8	4.3	2.6	0.4	–0.7	–0.4
4th "	0.4	1.0	0.6	–0.2	0.9	0.4	0.9	–3.9	3.3
1992 – 1st qtr.	0.6	3.6	1.2	0.9	–1.7	–0.5	0.9	0.5	4.2
Implicit prices									
1986	7.9	–13.7	3.9	4.0	3.4	3.7	6.3	4.1	–3.4
1987	6.0	0.6	4.9	4.5	3.6	4.1	5.3	8.9	0.8
1988	6.6	4.2	6.1	7.5	3.9	5.6	5.7	10.6	4.2
1989	6.2	8.8	6.4	5.7	5.1	5.4	6.3	7.8	7.5
1990	7.5	1.4	6.2	10.2	2.8	6.4	6.2	11.1	6.3
1991	7.3	–0.1	6.0	8.3	2.5	5.5	6.7	6.8	–0.9
1990 – 1st qtr.	2.4	0.9	2.0	4.3	0.7	2.5	1.6	3.7	1.1
2nd "	1.4	–2.8	0.6	1.9	0.1	1.0	1.4	–0.1	–0.5
3rd "	1.4	0.9	1.3	1.7	1.0	1.3	1.7	–0.5	1.2
4th "	2.6	6.2	3.2	1.9	0.4	1.2	1.7	13.6	1.7
1991 – 1st qtr.	1.5	–2.9	0.9	1.1	0.4	0.8	1.7	–1.6	0.2
2nd "	1.8	–1.7	1.2	2.8	0.9	1.9	1.7	–2.6	0.6
3rd "	1.8	0.2	1.5	3.6	0.5	2.0	1.6	1.5	1.0
4th "	1.1	–1.0	0.7	1.2	1.0	1.1	1.3	0.8	–0.8
1992 – 1st qtr.	0.7	–0.1	0.4	..	0.5	0.4	1.1	–0.5	–0.3

Table a14

Industrial production and business opinion indicators

(seasonally adjusted data)

	INDUSTRIAL PRODUCTION				ISCO BUSINESS OPINION INDICATORS				
	General index	Consumer goods	Investment goods	Intermediate goods	Changes in level of orders: Domestic	Changes in level of orders: Foreign	Changes in level of orders: Total	Expected demand in 3-4 months	Stocks of finished goods vis-à-vis normal
	(indices, 1985=100)				*(average balance of monthly responses)*				
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	23.0	–4.1
1990	117.8	115.7	125.4	116.5	–9.4	–16.1	–7.4	11.8	3.7
1991	115.4	115.8	118.0	114.3	–27.5	–31.5	–26.7	11.2	8.5
1988 – 2nd qtr. ...	113.1	110.3	119.0	112.4	1.4	–10.0	1.2	14.5	–7.0
3rd " ...	114.6	112.2	122.1	113.8	5.2	–8.3	4.4	21.9	–8.7
4th " ...	116.1	113.3	120.5	115.8	8.7	–3.7	7.8	28.3	–11.7
1989 – 1st qtr. ...	115.7	112.2	120.6	115.5	6.1	–3.1	9.1	24.6	–8.0
2nd " ...	116.4	114.3	119.7	116.0	–0.4	–5.9	2.0	22.7	–1.7
3rd " ...	118.2	116.4	123.8	118.7	–2.7	–3.9	0.7	23.0	–4.3
4th " ...	120.2	115.5	128.2	119.6	–1.1	–10.0	–0.5	21.5	–2.3
1990 – 1st qtr. ...	118.2	114.3	126.6	116.9	–0.3	–9.9	–1.0	17.4	–2.0
2nd " ...	118.1	114.8	127.3	116.7	–5.0	–9.1	–1.5	15.6	2.3
3rd " ...	118.9	117.5	125.6	118.3	–11.9	–20.4	–9.7	6.3	6.7
4th " ...	115.9	116.2	122.1	114.2	–20.2	–25.1	–17.5	7.9	7.7
1991 – 1st qtr. ...	115.9	116.4	119.8	114.4	–28.8	–34.2	–27.8	9.8	9.7
2nd " ...	115.4	115.2	120.2	114.8	–27.6	–32.3	–27.6	11.1	9.7
3rd " ...	115.1	114.7	117.5	112.8	–26.1	–31.1	–25.6	12.9	8.3
4th " ...	114.9	116.9	114.5	115.3	–27.5	–28.5	–25.8	10.9	6.3
1992 – 1st qtr. ...	117.4	118.8	115.8	116.6	–25.6	–29.7	–24.3	11.0	11.3
2nd " ...	116.2	119.6	113.4	116.1	–26.7	–38.4	–28.9	8.3	11.0

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	
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
1991	1,823	4,958	1,957	12,854	21,592	2,653	24,245	10.9	11.9	42.4
1988 – 2nd qtr.	2,069	4,932	1,825	12,190	21,016	2,866	23,882	12.0	13.0	42.1
3rd "	2,015	4,943	1,829	12,212	20,999	2,851	23,850	12.0	12.9	42.0
4th "	1,972	4,927	1,828	12,227	20,953	2,869	23,821	12.0	12.9	41.9
1989 – 1st qtr.	1,945	4,924	1,778	12,276	20,923	2,891	23,813	12.1	13.0	41.9
2nd "	1,929	4,960	1,773	12,306	20,968	2,896	23,864	12.1	13.0	42.0
3rd "	1,948	4,985	1,823	12,335	21,092	2,839	23,930	11.9	12.7	42.1
4th "	1,968	5,008	1,847	12,382	21,204	2,734	23,938	11.4	12.2	42.1
1990 – 1st qtr.	1,946	5,025	1,861	12,445	21,278	2,638	23,916	11.0	11.8	42.0
2nd "	1,893	4,969	1,857	12,602	21,321	2,602	23,923	10.9	11.6	42.0
3rd "	1,844	4,948	1,857	12,685	21,334	2,604	23,939	10.9	11.7	42.0
4th "	1,832	4,987	1,880	12,725	21,423	2,569	23,993	10.7	11.6	42.1
1991 – 1st qtr.	1,817	5,026	1,929	12,817	21,590	2,686	24,276	11.1	11.9	42.5
2nd "	1,840	4,964	1,964	12,852	21,619	2,639	24,259	10.9	11.9	42.5
3rd "	1,829	4,890	1,985	12,889	21,593	2,618	24,211	10.8	11.8	42.4
4th "	1,790	4,826	1,992	12,952	21,560	2,663	24,223	11.0	12.0	42.4
1992 – 1st qtr.	*(1,784)*	*(4,828)*	*(2,000)*	*(13,009)*	*(21,621)*	*(2,679)*	*(24,299)*	*(11.0)*	*(12.2)*	*(42.5)*

Table a16

Wholesale and consumer prices

(% changes on corresponding period)

	Wholesale prices				Consumer prices				Cost of living	*Scala mobile* index
	Consum- er goods	Invest- ment goods	Intermedi- ate goods	Total	Food	Non-food products	Services	Total		
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
1991	7.0	4.1	4.5	5.2	6.7	5.4	7.5	6.4	6.4	7.7
1990 – 3rd qtr.	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 "	7.1	3.8	2.7	4.0	6.6	5.4	7.9	6.4	6.4	8.1
4th "	7.3	3.3	–1.6	1.1	6.9	4.0	8.0	6.0	6.1	6.9
1992 – 1st qtr.	6.0	3.0	–1.4	0.9	6.6	3.8	8.0	5.8	5.7	5.9
2nd "	5.4	3.2	1.6	2.7	....	....	....	....	5.6	5.3
3rd "	....	....	....	....	....	....	....	....	5.3	....
1991 – Oct.	7.8	3.3	–3.8	–0.3	6.6	3.9	8.0	6.0	6.1	7.3
Nov.	7.4	3.3	0.2	2.3	6.8	4.1	8.0	6.0	6.2	6.7
Dec.	6.9	3.1	–1.1	1.3	7.3	4.0	7.9	6.1	6.0	6.6
1992 – Jan.	6.6	2.8	–1.8	0.8	6.8	4.1	8.5	6.1	6.1	6.1
Feb.	5.7	2.7	–2.0	0.4	6.7	3.6	7.9	5.8	5.4	5.7
Mar.	5.7	3.4	–0.3	1.6	6.4	3.5	7.7	5.5	5.6	5.9
Apr.	5.9	3.1	1.8	3.0	6.3	3.5	7.5	5.4	5.6	5.8
May	5.6	3.4	1.9	3.0	....	....	....	....	5.7	5.3
June	4.8	3.2	1.1	2.3	....	....	....	....	5.5	4.7
July	....	....	....	....	....	....	....	....	5.5	4.3
Aug.	....	....	....	....	....	....	....	....	5.3	4.0
Sept.	....	....	....	....	....	....	....	....	5.2	....
Oct.	....	....	....	....	....	....	....	....	(5.0)	....

Table a17

Balance of payments on a settlements basis

(billions of lire)

	Goods (*cif-fob*)	Services and transfers				Balance on current account	Non-bank capital flows	Bank capital flows	Errors and omissions	Change in official reserves
		Foreign travel	Income from capital	Other	Total					
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	–19,470	7,083	–17,300	423	–9,794	–29,264	29,505	22,976	–8,061	–15,156
1991	(–25,581)	(8,402)	(–21,292)	(–3,994)	(–16,884)	(–42,465)	(–5,880)	(39,369)	(405)	(8,571)
1991 – Aug.	(954)	(211)	(–1,326)	(–593)	(–1,708)	(–754)	(–3,027)	(2,453)	(422)	(906)
Sept. ...	(–3,219)	(555)	(–2,217)	(–387)	(–2,049)	(–5,268)	(3,626)	(1,543)	(438)	(–339)
Oct.	(–3,342)	(832)	(–2,076)	(–69)	(–1,313)	(–4,655)	(–2,201)	(4,533)	(1,119)	(1,204)
Nov.	(–2,473)	(412)	(–1,777)	(–1,183)	(–2,548)	(–5,021)	(–603)	(2,078)	(–211)	(3,757)
Dec.	(–3,685)	(224)	(–1,733)	(–176)	(–1,685)	(–5,370)	(–3,453)	(224)	(871)	(7,728)
1992 – Jan.	(–2,256)	(255)	(–1,661)	(–92)	(–1,498)	(–3,754)	(–2,074)	(6,677)	(–1,415)	(566)
Feb.	(–2,276)	(155)	(–1,019)	(–1,055)	(–1,919)	(–4,195)	(–2,741)	(6,228)	(1,427)	(–719)
Mar.	(–2,300)	(947)	(–1,750)	(–302)	(–1,105)	(–3,405)	(–9,656)	(10,379)	(1,837)	(845)
Apr.	(–2,242)	(911)	(–2,169)	(–251)	(–1,509)	(–3,751)	(–4,982)	(7,131)	(–2,952)	(4,554)
May	(–2,445)	(858)	(–2,092)	(–206)	(–1,440)	(–3,885)	(–1,829)	(4,787)	(–127)	(1,054)
June ...	(–2,561)	(862)	(–2,108)	(–235)	(–1,481)	(–4,042)	(–6,090)	(6,438)	(–4,087)	(7,781)
July	....	....	....	....	....	....	(–10,216)	(6,490)	....	(10,524)
Aug.	....	....	....	....	....	....	(–2,829)	(2,098)	....	(4,505)

Balance of payments on a transactions basis

(billions of lire)

	Goods (*fob-fob*)	Services and transfers				Balance on current account	Non-bank capital flows	Bank capital flows	Errors and omissions	Change in official reserves
		Foreign travel	Income from capital	Other	Total					
1988	–1,501	8,349	–9,278	–5,035	–5,964	–7,465	11,073	10,224	–2,926	–10,906
1989	–2,956	7,151	–11,366	–7,640	–11,855	–14,811	18,961	14,979	–3,743	–15,386
1990	431	7,083	–16,000	–9,139	–18,056	–17,625	28,527	22,976	–18,722	–15,156
1991	(–923)	(8,402)	(–19,992)	(–13,713)	(–25,303)	(–26,226)	(–12,786)	(39,369)	(–8,928)	(8,571)
1990 – 2nd qtr. ...	1,577	2,074	–4,301	–2,049	–4,276	–2,699	20,400	4,748	–6,988	–15,461
3rd " ...	3,491	2,405	–3,803	–1,393	–2,791	700	5,339	–2,790	–1,106	–2,143
4th " ...	760	1,896	–4,796	–2,011	–4,911	–4,151	–5,070	11,050	–10,180	8,351
1991 – 1st qtr. ...	(–2,734)	(1,542)	(–4,070)	(–4,113)	(–6,641)	(–9,375)	(16,925)	(3,048)	(–2,820)	(–7,778)
2nd " ...	(–1,160)	(3,378)	(–5,310)	(–2,849)	(–4,781)	(–5,941)	(–10,515)	(16,761)	(–2,429)	(2,124)
3rd " ...	(899)	(2,014)	(–5,676)	(–2,055)	(–5,717)	(–4,818)	(–9,930)	(12,725)	(487)	(1,536)
4th " ...	(2,072)	(1,468)	(–4,936)	(–4,696)	(–8,164)	(–6,092)	(–9,266)	(6,835)	(–4,166)	(12,689)
1992 – 1st qtr. ...	(–3,695)	(1,357)	(–4,430)	(–4,498)	(–7,571)	(–11,266)	*(–13,181)*	(23,284)	(471)	(692)
2nd " ...	(–1,462)	(2,631)	(–5,719)	(–2,692)	(–5,780)	(–7,242)	*(–16,093)*	(18,356)	(–8,410)	(13,389)

Table a18

External position of BI-UIC

	Short-term position							Medium and long-term position			Overall position
	Assets					Liabilities	Net reserves	Assets		Liabilities	
	Gold	SDRs	Reserve position in the IMF	Ecus	Convertible currencies			Total	of which: foreign securities		
						(billions of lire)					
1987	39,812	1,253	1,691	12,220	20,307	127	75,156	306	193	1,165	74,297
1988	37,242	1,239	1,653	10,360	32,136	192	82,438	1,571	1,452	1,234	82,775
1989	33,663	1,268	1,834	11,409	44,847	400	92,621	1,793	1,793	1,173	93,241
1990	30,579	1,172	1,936	10,433	57,578	400	101,298	3,230	3,218	1,129	103,399
1991 – Aug. .	(28,367)	(1,179)	(2,572)	(11,582)	(55,721)	(287)	(99,134)	(9,821)	(9,752)	(1,221)	(107,734)
Sept.	(29,603)	(1,156)	(2,691)	(11,567)	(55,302)	(352)	(99,967)	(9,811)	(9,743)	(1,197)	(108,581)
Oct. .	(29,603)	(1,137)	(2,619)	(11,055)	(52,675)	(408)	(96,681)	(11,645)	(11,577)	(1,203)	(107,123)
Nov. .	(29,603)	(1,100)	(2,582)	(11,064)	(49,392)	(548)	(93,193)	(11,194)	(11,085)	(1,192)	(103,195)
Dec. .	(29,288)	(1,067)	(2,595)	(11,092)	(41,229)	(418)	(84,853)	(10,642)	(10,536)	(1,157)	(94,338)
1992 – Jan. .	(29,288)	(1,051)	(2,694)	(10,027)	(40,476)	(822)	(82,714)	(11,978)	(11,869)	(1,190)	(93,502)
Feb. .	(29,288)	(1,053)	(2,638)	(10,036)	(40,560)	(968)	(82,607)	(12,971)	(12,862)	(1,192)	(94,386)
Mar. .	(27,000)	(1,054)	(2,608)	(10,071)	(39,167)	(476)	(79,424)	(13,318)	(13,203)	(1,194)	(91,548)
Apr. .	(27,000)	(1,090)	(2,702)	(10,222)	(35,175)	(604)	(75,585)	(13,182)	(13,066)	(1,200)	(87,567)
May .	(27,000)	(1,078)	(2,668)	(10,267)	(34,057)	(380)	(74,690)	(12,848)	(12,700)	(1,191)	(86,347)
June	(28,435)	(1,055)	(2,526)	(10,269)	(26,702)	(463)	(68,524)	(12,026)	(11,881)	(1,161)	(79,389)
July .	(28,435)	(1,031)	(2,521)	(9,317)	(17,072)	(602)	(57,774)	(10,872)	(10,736)	(1,135)	(67,511)
Aug. .	(28,435)	(1,048)	(2,494)	(9,336)	(12,693)	(545)	(53,461)	(10,332)	(10,198)	(1,123)	(62,670)
						(millions of dollars)					
1987	34,050	1,072	1,446	10,451	17,368	109	64,278	262	165	996	63,543
1988	28,521	949	1,266	7,934	24,611	147	63,134	1,203	1,112	945	63,392
1989	26,496	998	1,444	8,980	35,299	315	72,901	1,411	1,411	923	73,389
1990	27,060	1,037	1,713	9,232	50,949	354	89,638	2,858	2,848	999	91,497
1991 – Aug. .	(21,047)	(907)	(1,978)	(8,909)	(42,859)	(221)	(75,479)	(7,554)	(7,501)	(939)	(82,094)
Sept.	(23,772)	(928)	(2,161)	(9,289)	(44,409)	(283)	(80,276)	(7,878)	(7,824)	(961)	(87,193)
Oct. .	(23,772)	(907)	(2,089)	(8,820)	(42,025)	(326)	(77,288)	(9,291)	(9,236)	(960)	(85,619)
Nov. .	(23,772)	(895)	(2,101)	(9,004)	(40,195)	(446)	(75,522)	(9,110)	(9,021)	(970)	(83,661)
Dec. .	(25,444)	(927)	(2,254)	(9,636)	(35,818)	(363)	(73,717)	(9,245)	(9,153)	(1,005)	(81,957)
1992 – Jan. .	(25,444)	(867)	(2,222)	(8,269)	(33,378)	(678)	(69,502)	(9,878)	(9,788)	(981)	(78,398)
Feb. .	(25,444)	(857)	(2,146)	(8,163)	(32,992)	(787)	(68,814)	(10,551)	(10,462)	(970)	(78,395)
Mar. .	(21,792)	(851)	(2,105)	(8,128)	(31,612)	(384)	(64,104)	(10,749)	(10,656)	(964)	(73,889)
Apr. .	(21,792)	(874)	(2,167)	(8,197)	(28,208)	(484)	(60,754)	(10,571)	(10,478)	(962)	(70,362)
May .	(21,792)	(888)	(2,197)	(8,456)	(28,049)	(313)	(61,069)	(10,581)	(10,460)	(981)	(70,669)
June	(24,621)	(913)	(2,187)	(8,892)	(23,121)	(401)	(59,333)	(10,413)	(10,287)	(1,005)	(68,741)
July .	(24,621)	(921)	(2,253)	(8,327)	(15,258)	(538)	(50,842)	(9,717)	(9,595)	(1,014)	(59,545)
Aug. .	(24,621)	(972)	(2,314)	(8,660)	(11,775)	(506)	(47,836)	(9,584)	(9,460)	(1,042)	(56,379)

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
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	330,008	76,890	406,898	465,849	69,630	535,479	–128,582	–16,680	–145,261	–140,680	–249
1991	366,306	79,697	446,003	508,620	68,031	576,651	–130,649	–21,673	–152,322	–152,322	–73
1990 – 3rd qtr.	73,244	17,403	90,647	106,855	16,601	123,456	–32,810	–2,826	–35,635	–35,635	–69
4th "	95,134	32,271	127,405	146,014	28,757	174,771	–47,366	–14,457	–61,823	–57,241	–35
1991 – 1st qtr.	75,852	12,025	87,877	79,781	8,214	87,995	–118	–32,989	–33,107	–33,107	–5
2nd "	96,348	15,647	111,995	165,521	16,235	181,757	–69,761	44,840	–24,922	–24,922	–1
3rd "	83,225	20,469	103,694	122,549	15,886	138,435	–34,741	–11,173	–45,914	–45,914	–29
4th "	110,881	31,556	142,437	140,769	27,696	168,465	–26,028	–22,351	–48,379	–48,379	–39
1992 – 1st qtr.	80,603	15,390	95,993	91,303	9,643	100,946	–4,954	–36,659	–41,613	–41,613	–8
2nd "	109,549	18,449	127,998	173,437	16,765	190,202	–62,204	30,739	–31,465	–31,465	–20
3rd "	101,992	17,198	119,190	119,283	18,392	137,675	–18,485	–19,496	–37,981	–37,981	–3
1991 – Sept.	21,073	4,682	25,755	32,007	5,371	37,378	–11,623	–10,896	–22,519	–22,519	..
Oct.	23,795	7,322	31,117	37,704	2,565	40,269	–9,152	–10,974	–20,126	–20,126	–1
Nov.	33,013	9,183	42,196	35,048	6,139	41,187	1,009	–15,290	–14,281	–14,281	–37
Dec.	54,072	15,051	69,123	68,017	18,992	87,009	–17,886	3,913	–13,973	–13,973	..
1992 – Jan.	31,031	1,453	32,484	23,743	382	24,126	8,358	–14,168	–5,810	–5,810	–1
Feb.	23,024	7,690	30,714	27,075	5,154	32,229	–1,514	–7,566	–9,080	–9,080	–6
Mar.	26,547	6,247	32,794	40,486	4,107	44,592	–11,798	–14,925	–26,723	–26,723	–1
Apr.	27,790	4,790	32,580	58,927	9,793	68,720	–36,140	13,623	–22,517	–22,517	–2
May	29,213	8,579	37,793	57,162	4,487	61,649	–23,857	5,940	–17,917	–17,917	–14
June	52,546	5,080	57,625	57,348	2,484	59,833	–2,208	11,177	8,970	8,970	–4
July	38,561	5,349	43,909	41,831	9,246	51,077	–7,168	–7,856	–15,024	–15,024	..
Aug.	35,620	6,627	42,247	25,076	7,064	32,140	10,107	–11,750	–1,643	–1,643	–3
Sept.	27,811	5,223	33,034	52,377	2,082	54,459	–21,425	110	–21,315	–21,315	..

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
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
1991	113,915	20,294	11,589	–3,696	2,472	2,011	11,694	5,506	7,146	152,322	19,070
1990 – 3rd qtr. ...	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. ...	20,610	6,032	4,044	–3,231	–879	–1,399	1,305	6,529	1,498	33,107	1,923
2nd " ...	34,153	2,829	–770	–5,353	–8,214	–7,487	71	–526	207	24,922	–10,737
3rd " ...	27,385	–5,159	4,907	678	10,949	11,216	401	–780	3,052	45,914	6,467
4th " ...	31,767	16,592	3,408	4,209	616	–320	9,918	283	2,389	48,379	21,417
1992 – 1st qtr. ...	39,112	3,814	1,713	–667	–754	–951	1,100	–796	1,239	41,613	2,392
2nd " ...	36,833	17,225	9,420	629	–13,412	–12,777	–722	–943	288	31,465	4,442
3rd " ...	1,148	9,441	9,114	–2,351	26,957	26,890	920	4	–162	37,981	34,046
1991 – Sept.	11,520	–7,250	2,501	–248	7,649	7,830	202	–622	1,270	22,519	151
Oct.	13,425	3,045	1,750	478	5,174	4,700	–404	69	112	20,126	8,697
Nov.	13,842	6,287	3,195	2,544	–3,013	–3,018	189	82	–14	14,281	5,818
Dec.	4,500	7,260	–1,537	1,187	–1,545	–2,001	10,133	133	2,290	13,973	6,902
1992 – Jan.	8,374	7,815	329	–1,726	–4,823	–4,197	2,400	3	–472	5,810	1,267
Feb.	12,047	7,773	1,402	1,416	–2,179	–2,121	–1,400	–1,141	351	9,080	7,010
Mar.	18,691	–11,774	–17	–357	6,248	5,366	100	342	1,360	26,723	–5,884
Apr.	7,759	–5,189	1,978	–3,027	14,831	15,970	–1,650	–549	147	22,517	6,616
May	17,661	10,421	7,386	987	–7,438	–6,955	828	–726	205	17,917	3,970
June	11,412	11,993	56	2,668	–20,805	–21,791	100	332	–65	–8,970	–6,144
July	4,209	8,189	1,705	–1,812	9,295	9,285	200	–32	–352	15,024	15,671
Aug.	–675	–12,036	1,218	–1,609	283	93	720	6	91	1,643	–13,362
Sept.	–2,386	13,288	6,192	1,070	17,379	17,512	..	30	100	21,315	31,737

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
1984	207,892	152,691	50,626	38,630	2,379	452,217	92,864	545,081	516,215
1985	294,961	150,814	59,693	36,418	2,437	544,323	120,286	664,609	639,252
1986	374,454	159,187	70,960	37,948	2,461	645,010	130,955	775,965	750,698
1987 – 2nd qtr. ..	419,910	156,222	74,102	38,144	2,553	690,930	135,268	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	938,879	913,129
3rd " ..	464,710	239,400	87,969	42,715	2,722	837,517	138,859	976,375	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. ..	491,459	257,551	97,000	44,588	2,749	893,347	139,905	1,033,252	1,011,786
2nd " ..	501,203	261,939	98,400	47,666	2,807	912,016	133,209	1,045,225	1,024,469
3rd " ..	521,726	273,053	100,323	48,616	2,842	946,560	133,939	1,080,500	1,060,927
4th " ..	534,465	284,776	110,237	52,899	2,844	985,221	147,474	1,132,695	1,111,328
1990 – 1st qtr. ..	540,006	299,148	112,897	54,551	2,901	1,009,503	147,154	1,156,657	1,135,710
2nd " ..	574,386	301,875	113,716	56,095	2,995	1,049,067	126,564	1,175,631	1,154,365
3rd " ..	587,857	312,420	114,449	53,542	3,058	1,071,326	131,858	1,203,184	1,186,687
4th " ..	616,482	319,079	123,007	60,248	3,032	1,121,847	147,752	1,269,599	1,247,170
1991 – 1st qtr. ..	630,762	325,738	124,312	64,175	3,094	1,148,081	149,722	1,297,803	1,275,289
2nd " ..	661,305	330,724	124,383	67,843	3,180	1,187,435	138,932	1,326,367	1,301,485
3rd " ..	694,790	334,242	124,784	68,157	3,237	1,225,210	145,357	1,370,566	1,349,941
4th " ..	711,572	334,884	134,701	78,012	3,240	1,262,409	166,923	1,429,332	1,399,091
1992 – 1st qtr. ..	747,109	335,731	135,801	80,321	3,327	1,302,290	169,108	1,471,397	1,442,367
1992 – Apr.	760,610	340,613	134,151	80,071	3,371	1,318,816	175,640	1,494,456	1,465,896
May	768,168	346,633	134,980	82,095	3,397	1,335,274	179,668	1,514,942	1,485,082
June	767,857	344,913	135,080	81,474	3,423	1,332,748	174,002	1,506,749	1,476,042
July	760,587	347,463	135,280	81,272	3,460	1,328,061	191,882	1,519,944	1,490,740
Aug.	773,648	350,311	136,000	81,272	3,480	1,344,711	(177,815)	(1,522,525)	(1,493,393)
Sept.	....	....	136,000	....	....	....	....	....	....

Table a22

Monetary base

(flows in billions of lire)

	SOURCES					TOTAL	USES				
								Bank reserves			
								Deposits with the Bank of Italy			
	Foreign sector	Treasury	Open market	Refi-nancing	Other sectors		Currency in circulation		of which: compulsory reserves	Other	Total
1989	14,971	8,450	–2,106	1,203	–2,042	20,475	10,477	9,746	9,567	252	9,998
1990	15,458	–1,383	2,393	1,260	–4,027	13,700	1,805	10,745	13,026	1,150	11,895
1991	–8,674	–9,458	27,172	2,664	–583	11,121	6,906	3,646	3,424	570	4,216
1991 – Sept. ..	331	6,556	–6,402	–857	–1,698	–2,068	395	–2,855	–1,089	392	–2,463
Oct. ...	–1,150	5,027	2,226	7	–1,384	4,726	–69	4,221	1,604	574	4,795
Nov. ...	–3,826	–2,003	7,829	952	371	3,322	1,904	2,897	2,836	–1,479	1,418
Dec. ...	–7,740	–2,607	9,516	5,435	2,727	7,331	5,417	–654	1,494	2,568	1,914
1992 – Jan. ...	–613	–5,513	6,787	–5,939	–728	–6,007	–4,223	907	1,857	–2,691	–1,784
Feb. ...	751	–4,872	11,886	–510	–580	6,677	–479	7,326	6,388	–170	7,156
Mar. ...	–868	4,894	–10,777	–137	–2,301	–9,190	677	–10,470	–8,364	604	–9,867
Apr. ...	–4,515	13,700	–7,062	–204	–751	1,167	964	581	–1,318	–379	203
May ...	–1,055	–9,674	13,653	730	434	4,088	1,354	2,887	3,585	–153	2,734
June ..	–7,800	–21,398	15,262	10,903	3,939	906	–968	1,320	282	554	1,874
July ...	–10,507	9,016	6,672	2,941	–1,460	6,661	5,541	1,577	–926	–457	1,120
Aug. ...	(–4,696)	(110)	–13,466	(9,136)	(–494)	(–9,410)	(–3,458)	(–6,460)	(–713)	(508)	(–5,952)
Sept. ..	(–28,666)	(17,255)	(14,482)	(386)	(–1,977)	(1,479)	(2,702)	(–938)	(–4,642)	(–285)	(–1,223)

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	Treasury bonds	Other	Total			
1989	133,854	–36,296	–18,757	–26,037	–14,692	–95,784	–29,620	–125,403	8,450
1990	145,261	–39,335	–59,193	9,014	–25,133	–114,648	–31,997	–146,645	–1,383
1991	152,322	–21,685	–13,684	–85,744	–16,419	–137,532	–24,248	–161,780	–9,458
1991 – Sept.	22,519	–2,145	–2,270	–8,237	–2,465	–15,117	–846	–15,963	6,556
Oct.	20,126	–1,938	–1,851	–9,487	–2,057	–15,333	234	–15,099	5,027
Nov.	14,281	–2,226	–2,460	–7,982	–3,367	–16,035	–249	–16,284	–2,003
Dec.	13,973	–1,083	–871	–3,946	1,869	–4,031	–12,548	–16,579	–2,607
1992 – Jan.	5,810	–814	–1,835	–7,119	369	–9,399	–1,924	–11,323	–5,513
Feb.	9,080	–1,658	–5,791	–5,923	–2,774	–16,146	2,194	–13,951	–4,872
Mar.	26,723	–1,110	–10,405	–6,518	–1,995	–20,029	–1,801	–21,829	4,894
Apr.	22,517	–2,893	–11,202	3,219	–16	–10,892	2,074	–8,817	13,700
May	17,917	–8,297	–7,836	–5,757	–5,403	–27,293	–298	–27,591	–9,674
June	–8,970	–667	–4,423	–8,409	1,430	–12,069	–360	–12,428	–21,398
July	15,024	–1,430	–3,450	–2,456	1,126	–6,209	201	–6,008	9,016
Aug.	1,643	(–1,443)	(–3,474)	(2,090)	(2,106)	(–721)	–811	(–1,532)	(110)
Sept.	21,315	(–6,153)	(–1,918)	(1,785)	(2,356)	(–3,930)	–130	(–4,060)	(17,255)

Table a23

Monetary base

(stocks in billions of lire)

	SOURCES						
	Foreign sector	BI-UIC financing of the Treasury: Total	of which: Government securities and Treasury c/c	of which: Treasury overdraft with BI	Memorandum item: undrawn overdraft facility	Refinancing	Other sectors
1988	82,823	140,712	70,302	66,312	4,341	3,669	–62,158
1989	92,875	146,798	74,489	68,155	1,658	4,872	–59,023
1990	103,335	147,805	72,596	71,063	6,266	6,132	–58,050
1991 – Sept.	108,442	145,531	68,393	73,394	8,641	2,402	–61,411
Oct.	107,038	152,784	70,461	78,093	3,998	2,409	–62,541
Nov.	103,040	158,610	79,292	75,075	6,688	3,362	–61,999
Dec.	94,171	165,518	87,739	73,074	9,121	8,796	–58,143
1992 – Jan.	93,288	166,792	93,828	68,877	19,768	2,858	–58,600
Feb.	94,204	173,806	103,016	66,756	22,077	2,348	–59,345
Mar.	91,342	167,923	90,885	72,123	16,716	2,211	–59,653
Apr.	87,400	174,561	82,670	88,093	839	2,007	–60,978
May	86,179	178,540	94,078	81,137	7,862	2,737	–60,378
June	79,202	172,404	108,739	59,346	29,762	13,640	–57,262
July	67,347	188,092	115,115	68,632	20,573	16,581	–57,373
Aug.	(62,315)	(174,736)	101,470	(68,724)	(20,772)	(25,717)	(–57,531)
Sept.	(33,649)	(206,473)	(115,828)	(86,236)	(3,549)	(26,103)	(–59,508)

	USES						
	Currency in circulation: Total	Currency in circulation: of which: notes and coin	Bank reserves: Deposits with the Bank of Italy	Bank reserves: Deposits with the Bank of Italy: of which: compulsory reserves	Bank reserves: Other	Bank reserves: Total	Total monetary base
1988	57,167	56,941	103,235	102,898	4,644	107,880	165,047
1989	67,644	67,430	112,981	112,465	4,897	117,878	185,522
1990	69,449	69,320	123,726	125,491	6,047	129,773	199,222
1991 – Sept.	69,102	69,001	120,909	122,981	4,952	125,862	194,963
Oct.	69,033	68,803	125,130	124,585	5,527	130,657	199,690
Nov.	70,937	70,867	128,027	127,421	4,048	132,075	203,012
Dec.	76,354	76,201	127,372	128,915	6,616	133,989	210,343
1992 – Jan.	72,132	72,044	128,280	130,772	3,925	132,205	204,337
Feb.	71,653	71,572	135,606	137,160	3,755	139,361	211,013
Mar.	72,330	72,229	125,135	128,796	4,359	129,494	201,824
Apr.	73,294	73,188	125,717	127,478	3,980	129,697	202,990
May	74,648	74,540	128,604	131,063	3,827	132,431	207,079
June	73,680	73,549	129,924	131,345	4,381	134,305	207,985
July	79,221	79,068	131,501	130,419	3,924	135,425	214,646
Aug.	(75,763)	(75,612)	(125,041)	(129,706)	(4,432)	(129,474)	(205,236)
Sept.	(78,465)	(78,300)	(124,104)	(125,064)	(4,147)	(128,251)	(206,716)

Monetary base and BI operations:

(stocks in billions

	MONETARY BASE					
	Currency in circulation	Bank reserves				
		Deposits with the Bank of Italy	of which: excess reserves	Cash	Undrawn advances facilities	Total
1989	65,547	113,308	748	3,833	2,017	119,158
1990	69,569	125,698	197	4,390	897	130,986
1991 – Sept.	68,878	123,111	130	3,556	1,692	128,359
Oct.	69,125	124,701	116	3,372	2,045	130,118
Nov.	71,157	127,564	138	3,750	667	131,981
Dec.	77,150	129,111	196	4,719	900	134,730
1992 – Jan.	72,176	130,902	132	3,831	696	135,429
Feb.	71,262	137,282	130	3,565	349	141,196
Mar.	72,574	128,925	133	3,599	483	133,007
Apr.	73,443	127,591	119	3,656	376	131,622
May	73,860	131,191	127	3,591	266	135,049
June	73,689	131,485	139	3,958	215	135,657
July	77,752	130,538	125	3,938	194	134,669
Aug.	76,334	129,815	128	3,999	169	133,983
Sept.	78,481	125,195	132	(3,744)	210	(129,150)

Table a24

averages of daily data

of lire)

			BI OPERATIONS				
			Repurchase agreements			Ordinary and fixed term advances	TOTAL
Percentage changes (over 12 months)	TOTAL	Percentage changes (over 12 months)	Purchases	Sales	TOTAL		
9.1	184,705	9.5	1,905	277	1,628	2,158	3,786
9.6	200,555	10.2	1,912	1,052	861	4,447	5,308
7.8	197,236	8.4	3,608	341	3,267	456	3,723
6.5	199,243	8.1	6,397	386	6,011	80	6,091
7.6	203,138	8.8	17,105	138	16,968	1,923	18,890
8.9	211,880	9.7	17,018	89	16,929	2,618	19,548
9.9	207,605	9.5	28,228	203	28,025	1,853	29,878
9.7	212,458	9.0	40,771	103	40,668	1,901	42,569
6.2	205,581	7.0	29,752	155	29,597	1,581	31,178
5.8	205,064	7.7	22,665	193	22,472	1,544	24,016
7.5	208,909	8.8	30,731	134	30,597	4,001	34,598
8.1	209,347	8.3	41,828	..	41,828	7,954	49,782
8.7	212,421	9.1	44,351	..	44,351	14,432	58,782
7.3	210,317	8.5	38,270	..	38,270	18,753	57,023
(4.6)	(207,631)	(8.1)	41,053	..	41,053	18,851	59,904

Table a25

BI-UIC operations in government securities

(billions of lire)

	PRIMARY MARKET			OPEN MARKET				VARIATIONS IN BI-UIC PORTFOLIO
	subscriptions	redemptions	net subcriptions		of which: repurchase agreements: temporary purchases	temporary sales	other	
				Total				
1989	23,091	16,540	6,551	–2,106	2,880	..	1,531	4,445
1990	21,141	25,424	–4,283	2,393	2,120	..	179	–1,891
1991	10,252	22,281	–12,028	27,172	18,000	..	–501	15,144
1991 – Sept.	532	1,628	–1,096	–6,402	–5,056	..	–435	–7,498
Oct.	31	190	–158	2,226	1,579	..	–195	2,068
Nov.	1,042	39	1,002	7,829	5,500	..	1,162	8,831
Dec.	525	1,593	–1,068	9,516	7,155	..	1,673	8,448
1992 – Jan.	25	722	–697	6,787	10,459	..	–1,421	6,090
Feb.	532	3,229	–2,698	11,886	10,195	..	253	9,188
Mar.	39	1,393	–1,354	–10,777	–12,154	..	–247	–12,131
Apr.	559	1,713	–1,154	–7,062	–7,749	..	–680	–8,216
May	25	2,269	–2,245	13,653	12,750	..	15	11,408
June	1,018	1,619	–601	15,262	9,351	..	2,145	14,661
July	1,429	1,725	–296	6,672	3,088	..	–1,485	6,376
Aug.	1,366	1,545	–178	–13,466	–17,819	..	1,040	–13,645
Sept.	(1,201)	(1,325)	(–124)	(14,482)	12,784	..	–313	(14,358)
				of which: **Treasury bills**				
1989	18,887	15,406	3,481	–6,464	..	..	1,342	–2,983
1990	15,750	10,444	5,306	899	1,283	..	–49	6,205
1991	9,000	16,790	–7,790	4,095	375	..	–356	–3,696
1991 – Sept.	500	144	356	–604	139	..	–100	–248
Oct.	..	188	–188	666	–234	..	..	478
Nov.	1,000	32	969	1,575	275	..	287	2,544
Dec.	500	1,582	–1,082	2,269	354	..	1,378	1,187
1992 – Jan.	..	485	–485	–1,241	1,432	..	–1,076	–1,726
Feb.	500	1,908	–1,408	2,823	689	..	353	1,416
Mar.	..	360	–360	3	–414	..	–247	–357
Apr.	500	644	–144	–2,883	–2,025	..	–595	–3,026
May	..	1,297	–1,297	2,284	2,012	..	–100	987
June	1,000	1,611	–611	3,280	1,433	..	1,555	2,669
July	1,000	725	275	–2,087	–74	..	–1,515	–1,812
Aug.	1,300	1,525	–225	–1,384	–2,916	..	1,210	–1,609
Sept.	(1,000)	(961)	(39)	(1,031)	1,629	..	–352	(1,070)

BI-UIC operations in government securities

(billions of lire)

	PRIMARY MARKET			OPEN MARKET				VARIATIONS IN BI-UIC PORTFOLIO
					of which: repurchase agreements			
	subscriptions	redemptions	net subscriptions		temporary purchases	temporary sales	other	
				of which: Treasury credit certificates				
1989	2,161	2	2,159	2,061	2,610	..	152	4,220
1990	1,229	6,207	–4,979	–9,583	–661	..	148	–14,562
1991	154	4,570	–4,416	3,546	7,614	..	–150	–871
1991 – Sept.	11	1,480	–1,470	–2,672	–2,476	..	–185	–4,142
Oct.	8	2	7	–860	–463	..	–245	–853
Nov.	13	6	8	2,044	1,796	..	625	2,051
Dec.	12	7	6	2,714	2,687	..	250	2,720
1992 – Jan.	6	5	1	4,160	5,225	..	–300	4,161
Feb.	15	403	–389	4,744	5,260	..	–100	4,356
Mar.	6	..	6	–7,235	–6,937	..	..	–7,229
Apr.	8	..	7	–3,032	–2,721	..	–50	–3,024
May	8	6	2	3,190	3,410	..	50	3,192
June	5	..	5	7,657	7,813	..	370	7,663
July	76	696	–620	1,991	1,036	..	30	1,371
Aug.	66	2	64	–6,316	–7,248	..	–200	–6,252
Sept.	(82)	..	(82)	(5,466)	3,870	..	..	(5,548)
				of which: Treasury bonds				
1989	1,096	128	968	3,717	100	..	52	4,685
1990	3,318	7,652	–4,334	8,222	63	..	80	3,889
1991	449	75	374	16,477	7,785	..	–140	16,850
1991 – Sept.	14	..	14	–1,909	–1,440	..	–150	–1,894
Oct.	17	..	17	1,490	1,401	..	50	1,508
Nov.	20	2	18	4,197	3,450	..	150	4,215
Dec.	13	4	9	2,764	2,447	..	..	2,773
1992 – Jan.	12	69	–57	2,391	2,190	..	100	2,334
Feb.	12	917	–905	1,770	1,814	..	–50	864
Mar.	26	1,023	–997	–1,008	–2,097	..	..	–2,006
Apr.	38	1,061	–1,023	–1,441	–2,936	..	–35	–2,464
May	13	961	–948	6,130	5,283	..	65	5,182
June	13	7	6	2,705	–1,102	..	70	2,711
July	353	76	277	7,728	3,144	..	100	8,004
Aug.	..	17	–17	–4,511	–6,298	..	–20	–4,527
Sept.	(119)	(364)	–245	(8,756)	5,560	..	90	(8,511)

Table a26

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												
1991 – end-Sept.	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
end- "	11,420	80	11,500	11,500	92	12,655	11,500	..	11,500	97.19	10.38	11.97
mid-Nov.	4,480	20	4,500	5,000	92	6,527	5,000	..	5,000	97.15	10.54	12.16
end- "	12,500	..	12,500	13,500	91	12,820	12,500	1,000	13,500	97.02	11.18	12.90
mid-Dec.	4,922	78	5,000	5,000	91	6,068	5,000	..	5,000	96.89	11.70	13.51
end- "	12,896	104	13,000	13,000	91	15,430	13,000	..	13,000	96.79	12.11	13.98
1992 – mid-Jan.	4,650	100	4,750	5,000	91	8,291	5,000	..	5,000	97.11	10.82	12.48
end- "	11,405	95	11,500	11,750	91	12,018	11,750	..	11,750	97.20	10.46	12.07
mid-Feb.	4,995	5	5,000	5,000	91	6,318	5,000	..	5,000	97.10	10.86	12.53
end- "	12,230	1,270	13,500	13,000	91	14,414	12,500	500	13,000	97.04	11.10	12.81
mid-Mar.	4,920	80	5,000	5,000	91	8,109	5,000	..	5,000	97.01	11.22	12.95
end- "	13,000	..	13,000	13,000	91	16,250	13,000	..	13,000	96.98	11.34	13.09
mid-Apr.	5,000	..	5,000	5,500	91	8,742	5,500	..	5,500	96.90	11.66	13.46
end- "	11,485	265	11,750	12,500	91	15,544	12,500	..	12,500	96.89	11.70	13.51
mid-May	4,835	165	5,000	5,750	91	9,110	5,750	..	5,750	96.91	11.62	13.42
end- "	12,330	670	13,000	14,000	94	15,703	14,000	..	14,000	96.80	11.66	13.46
mid-June	5,000	..	5,000	4,750	92	5,513	4,750	..	4,750	96.72	12.25	14.15
end- "	13,000	..	13,000	13,500	92	14,274	13,500	..	13,500	96.64	12.57	14.52
mid-July	5,490	10	5,500	5,500	92	6,808	5,500	..	5,500	96.49	13.17	15.23
end- "	12,365	135	12,500	13,500	92	15,673	13,500	..	13,500	96.39	13.58	15.70
mid-Aug.	5,555	195	5,750	6,500	94	6,552	6,482	..	6,482	96.55	12.64	14.61
end- "	13,835	165	14,000	14,750	91	14,480	12,817	200	13,017	96.40	13.70	15.84
mid-Sept.	4,750	..	4,750	5,750	91	7,108	5,750	..	5,750	96.06	15.11	17.50
end- "	13,500	..	13,500	18,000	91	18,266	18,000	..	18,000	95.91	15.74	18.23
mid-Oct.	5,500	..	5,500	8,500	92	12,015	8,500	..	8,500	95.97	15.31	17.73
6-month												
1991 – end-Sept.	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
end- "	15,500	..	15,500	15,750	183	16,858	15,750	..	15,750	94.48	10.38	11.99
mid-Nov.	4,492	8	4,500	5,000	183	6,086	5,000	..	5,000	94.45	10.44	12.06
end- "	10,998	2	11,000	11,500	182	11,805	11,500	..	11,500	94.33	10.74	12.42
mid-Dec.	4,000	..	4,000	4,000	182	4,290	4,000	..	4,000	94.19	11.03	12.75
end- "	12,600	1,400	14,000	13,500	182	13,389	13,000	500	13,500	93.91	11.61	13.43
1992 – mid-Jan.	5,216	205	5,421	5,000	182	9,253	5,000	..	5,000	94.14	11.13	12.87
end- "	12,500	..	12,500	12,250	182	16,517	12,250	..	12,250	94.53	10.34	11.94
mid-Feb.	5,839	161	6,000	6,000	182	6,826	6,000	..	6,000	94.51	10.38	11.99
end- "	14,490	10	14,500	14,500	185	15,142	14,500	..	14,500	94.31	10.60	12.25
mid-Mar.	4,989	261	5,250	5,000	183	6,355	5,000	..	5,000	94.23	10.89	12.59
end- "	13,990	10	14,000	14,000	183	14,769	14,000	..	14,000	94.10	11.15	12.90
mid-Apr.	5,965	35	6,000	6,500	183	7,264	6,500	..	6,500	93.91	11.54	13.35
end- "	15,645	105	15,750	16,000	183	19,562	15,500	500	16,000	93.86	11.64	13.47
mid-May	4,960	40	5,000	5,750	185	9,767	5,750	..	5,750	93.90	11.43	13.22
end- "	11,406	94	11,500	13,250	185	16,049	13,250	..	13,250	93.91	11.41	13.20
mid-June	3,822	178	4,000	4,000	183	4,586	4,000	..	4,000	93.78	11.81	13.67
end- "	13,418	82	13,500	14,000	183	13,680	13,440	500	13,940	93.68	12.02	13.91
mid-July	5,000	..	5,000	5,000	184	5,813	5,000	..	5,000	93.21	12.92	14.97
end- "	12,250	..	12,250	13,000	183	14,916	13,000	..	13,000	93.05	13.33	15.45
mid-Aug.	5,870	130	6,000	6,750	182	6,845	6,750	..	6,750	93.36	12.75	14.77
end- "	14,252	248	14,500	15,250	179	14,887	14,217	400	14,617	93.19	13.35	15.47
mid-Sept.	4,935	65	5,000	5,750	181	5,394	5,354	..	5,354	92.16	15.41	17.90
end- "	14,000	..	14,000	15,000	181	15,285	14,500	500	15,000	91.83	16.13	18.75
mid-Oct.	6,320	180	6,500	7,500	182	10,204	7,500	..	7,500	91.89	15.91	18.49

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
						12-month						
1991 – end-Sept.	10,500	..	10,500	11,000	366	11,524	10,500	500	11,000	88.90	10.73	12.45
mid-Oct.	3,750	..	3,750	3,750	366	6,890	3,750	..	3,750	89.05	10.57	12.26
end- "	11,447	53	11,500	12,500	366	13,944	12,500	..	12,500	89.25	10.35	12.01
mid-Nov.	3,500	..	3,500	4,000	368	4,628	4,000	..	4,000	89.10	10.46	12.13
end- "	9,631	2	9,633	10,000	367	9,829	9,829	..	9,829	88.80	10.81	12.54
mid-Dec.	2,500	..	2,500	2,500	365	3,476	2,500	..	2,500	88.85	10.81	12.55
end- "	11,250	..	11,250	11,750	365	12,957	11,750	..	11,750	88.55	11.13	12.93
1992 – mid-Jan.	4,415	85	4,500	4,750	366	7,734	4,750	..	4,750	88.75	10.89	12.64
end- "	13,750	..	13,750	14,000	365	16,997	14,000	..	14,000	89.30	10.33	11.98
mid-Feb.	5,164	86	5,250	5,500	364	6,410	5,500	..	5,500	89.35	10.30	11.95
end- "	13,625	375	14,000	14,500	364	15,399	14,500	..	14,500	89.20	10.46	12.14
mid-Mar.	4,500	..	4,500	5,000	364	5,825	5,000	..	5,000	89.00	10.68	12.39
end- "	12,491	9	12,500	13,000	364	13,960	13,000	..	13,000	88.75	10.95	12.71
mid-Apr.	3,734	17	3,750	4,000	365	6,821	4,000	..	4,000	88.45	11.24	13.06
end- "	10,278	222	10,500	11,000	365	13,332	11,000	..	11,000	88.45	11.24	13.06
mid-May	3,342	158	3,500	4,500	364	7,409	4,500	..	4,500	88.50	11.22	13.03
end- "	7,330	170	7,500	9,250	367	11,439	9,250	..	9,250	88.45	11.18	12.99
mid-June	2,647	353	3,000	3,250	365	3,114	2,750	500	3,250	88.15	11.57	13.44
end- "	8,887	998	9,885	9,000	365	9,167	9,000	..	9,000	88.00	11.73	13.64
mid-July	2,500	..	2,500	2,500	365	4,020	2,500	..	2,500	87.55	12.23	14.22
end- "	10,420	580	11,000	11,000	365	10,316	9,956	1,000	10,956	87.10	12.72	14.81
mid-Aug.	2,482	18	2,500	3,000	367	4,463	3,000	..	3,000	87.60	12.10	14.08
end- "	9,231	769	10,000	11,000	364	10,093	9,400	700	10,100	87.15	12.70	14.79
mid-Sept.	2,845	155	3,000	3,500	365	3,363	3,338	..	3,338	85.90	14.07	16.41
end- "	10,259	741	11,000	10,000	365	9,921	9,500	500	10,000	85.30	14.76	17.23
mid-Oct.	3,601	149	3,750	4,000	365	5,566	4,000	..	4,000	84.90	15.22	17.79
						Total						
1991 – end-Sept.	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	..	14,500	–	10.56	12.21
end- "	38,367	133	38,500	39,750	–	43,457	39,750	..	39,750	–	10.37	11.99
mid-Nov.	12,472	28	12,500	14,000	–	17,241	14,000	..	14,000	–	10.48	12.12
end- "	33,129	4	33,133	35,000	–	34,454	33,829	1,000	34,829	–	10.93	12.64
mid-Dec.	11,422	78	11,500	11,500	–	13,834	11,500	..	11,500	–	11.27	13.04
end- "	36,746	1,504	38,250	38,250	–	41,776	37,750	500	38,250	–	11.63	13.46
1992 – mid-Jan.	14,281	390	14,671	14,750	–	25,278	14,750	..	14,750	–	10.95	12.66
end- "	37,655	95	37,750	38,000	–	45,532	38,000	..	38,000	–	10.37	11.99
mid-Feb.	15,997	253	16,250	16,500	–	19,554	16,500	..	16,500	–	10.50	12.14
end- "	40,345	1,655	42,000	42,000	–	44,955	41,500	500	42,000	–	10.71	12.39
mid-Mar.	14,409	341	14,750	15,000	–	20,289	15,000	..	15,000	–	10.93	12.64
end- "	39,481	19	39,500	40,000	–	44,979	40,000	..	40,000	–	11.15	12.90
mid-Apr.	14,699	52	14,750	16,000	–	22,826	16,000	..	16,000	–	11.51	13.32
end- "	37,408	592	38,000	39,500	–	48,438	39,000	500	39,500	–	11.55	13.37
mid-May	13,137	363	13,500	16,000	–	26,287	16,000	..	16,000	–	11.44	13.24
end- "	31,066	934	32,000	36,500	–	43,191	36,500	..	36,500	–	11.45	13.25
mid-June	11,469	531	12,000	12,000	–	13,213	11,500	500	12,000	–	11.92	13.80
end- "	35,305	1,080	36,385	36,500	–	37,121	35,940	500	36,440	–	12.15	14.07
mid-July	12,990	10	13,000	13,000	–	16,641	13,000	..	13,000	–	12.89	14.94
end- "	35,035	715	35,750	37,500	–	40,905	36,456	1,000	37,456	–	13.24	15.35
mid-Aug.	13,907	343	14,250	16,250	–	17,860	16,232	..	16,232	–	12.59	14.58
end- "	37,318	1,182	38,500	41,000	–	39,460	36,434	1,300	37,734	–	13.30	15.42
mid-Sept.	12,530	220	12,750	15,000	–	15,865	14,442	..	14,442	–	14.98	17.40
end- "	37,759	741	38,500	43,000	–	43,472	42,000	1,000	43,000	–	15.65	18.18
mid-Oct.	15,421	329	15,750	20,000	–	27,786	20,000	..	20,000	–	15.52	18.03

Table a27

Bank of Italy repurchase agreements

	AMOUNT		MATURITY (DAYS)		YIELDS	
	offered	taken up	minimum	maximum	marginal	weighted average
1992 – July 10	7,500	7,500	4	18	14.90	15.09
1992 – July 17	6,500	6,500	3	12	15.90	16.02
1992 – July 22	7,000	7,000	16	16	17.30	17.56
1992 – July 23	11,000	11,000	4	14	17.10	17.29
1992 – July 24	10,000	10,000	19	19	16.85	17.18
1992 – July 27	8,000	8,000	21	21	16.80	16.95
1992 – July 28	8,000	8,000	20	21	16.50	16.68
1992 – July 31	8,500	7,893	19	19	15.10	15.86
1992 – Aug. 5	7,500	7,500	6	15	14.10	14.29
1992 – Aug. 7	7,500	7,500	13	14	14.10	14.20
1992 – Aug. 10	4,500	4,500	10	11	14.15	14.21
1992 – Aug. 11	4,500	4,500	13	13	14.05	14.18
1992 – Aug. 12	5,500	5,500	14	14	14.05	14.14
1992 – Aug. 18	6,500	6,500	10	28	14.60	14.78
1992 – Aug. 19	5,000	5,000	6	27	14.65	14.71
1992 – Aug. 20	4,000	4,000	8	28	14.75	14.78
1992 – Aug. 21	9,000	9,000	7	31	14.85	14.90
1992 – Aug. 24	6,000	6,000	4	29	14.95	15.02
1992 – Aug. 25	9,000	8,967	3	24	14.50	15.15
1992 – Sept. 4	4,000	4,000	12	12	17.75	18.03
1992 – Sept. 8	6,000	6,000	9	9	20.15	20.81
1992 – Sept. 9	3,500	3,500	13	13	20.20	20.75
1992 – Sept. 14	6,000	5,562	2	2	15.00	16.06
1992 – Sept. 15	3,000	3,000	2	16	16.10	16.30
1992 – Sept. 17	6,000	6,000	4	14	20.50	22.22
1992 – Sept. 18	10,000	10,000	4	14	20.05	21.01
1992 – Sept. 21	6,000	6,000	3	15	20.20	20.56
1992 – Sept. 22	9,000	9,000	7	27	18.50	19.10
1992 – Sept. 23	6,000	6,000	6	27	16.50	16.90
1992 – Sept. 24	6,500	6,500	5	26	16.15	16.53
1992 – Sept. 25	6,000	6,000	5	27	15.80	16.21
1992 – Sept. 28	5,000	4,248	3	24	15.00	15.36
1992 – Sept. 29	3,000	3,000	1	22	15.10	15.23
1992 – Sept. 30	6,000	6,000	2	27	15.40	15.80
1992 – Oct. 5	5,000	5,000	3	23	15.70	15.89
1992 – Oct. 6	4,500	4,500	9	27	16.20	16.24
1992 – Oct. 7	3,000	3,000	12	26	16.05	16.10
1992 – Oct. 8	3,500	3,500	4	25	15.60	15.67
1992 – Oct. 9	4,000	4,000	6	24	15.05	15.10
1992 – Oct. 12	5,000	5,000	3	22	14.90	15.04
1992 – Oct. 13	3,000	3,000	3	21	14.95	14.97
1992 – Oct. 14	3,000	3,000	5	20	14.90	15.01
1992 – Oct. 15	7,500	7,500	4	20	14.90	14.98
1992 – Oct. 16	6,500	6,152	4	19	14.30	14.64
1992 – Oct. 19	4,000	4,000	4	16	14.50	14.55
1992 – Oct. 20	8,500	8,500	6	15	14.05	14.36

Table a28

Bank of Italy financing of purchases at Treasury bill auctions

(billions of lire)

	Maximum amount	Actual amount	Maturity (days)
1990 – Oct. 30	10,216	610	3
1990 – Nov. 15	3,385	685	6
1990 – Nov. 30	7,479	395	3
1990 – Dec. 14	2,187	782	7
1990 – Dec. 31	8,536	2,005	2
1991 – Jan. 15	3,887	207	2
1991 – Jan. 30	10,278	871	1
1991 – Feb. 14	3,916	477	4
1991 – Feb. 28	9,804	1,078	8
1991 – Mar. 14	4,003	439	4
1991 – Mar. 29	10,304	130	7
1991 – Apr. 15	3,904	500	4
1991 – Apr. 30	9,530	185	2
1991 – May 15	3,559	..	5
1991 – May 30	7,762	30	8
1991 – June 14	2,850	30	4
1991 – June 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 – Sept. 30	8,736	..	4
1991 – Oct. 15	4,606	..	2
1991 – Oct. 30	9,871	..	5
1991 – Nov. 14	4,038	80	4
1991 – Nov. 29	7,645	287	7
1991 – Dec. 16	2,884	..	8
1991 – Dec. 31	9,553	1,665	7
1992 – Jan. 15	4,653	..	5
1992 – Jan. 30	11,016	649	4
1992 – Feb. 4	5,074	798	7
1992 – Feb. 28	10,649	942	4
1992 – Mar. 16	4,585	565	1
1992 – Mar. 31	11,027	695	8
1992 – Apr. 15	4,414	..	6
1992 – Apr. 29	9,226	100	7
1992 – May 15	4,575	..	7
1992 – May 29	8,776	..	6
1992 – June 15	3,214	379	4
1992 – June 29	8,936	1,555	4
1992 – July 15	4,099	380	6
1992 – July 30	9,552	40	8
1992 – Aug. 14	4,628	405	4
1992 – Aug. 31	7,849	1,250	11
1992 – Sept. 15	9,801	..	2
1992 – Sept. 30	9,936	892	29
1992 – Oct. 15	6,067	..	4

Table a29

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 – Oct. 11	1,750	1,750	14	20	12.90	12.80
1989 – Oct. 12	1,500	1,500	13	19	12.60	12.46
1989 – Oct. 13	1,750	1,750	12	18	12.70	12.52
1989 – Oct. 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 – Nov. 7	1,500	1,500	8	8	12.70	12.48
1989 – Nov. 15	4,500	4,500	12	15	11.95	11.78
1989 – Nov. 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 – Mar. 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 – Apr. 3	3,500	3,500	2	2	7.20	4.74
1990 – Apr. 4	3,000	3,000	22	26	11.55	11.35
1990 – Apr. 6	2,000	2,000	11	24	11.90	11.63
1990 – Apr. 13	3,000	3,000	13	17	10.65	10.52
1990 – Apr. 17	2,500	2,500	9	10	11.45	11.22
1990 – Apr. 18	3,000	3,000	8	9	10.90	10.41
1990 – Apr. 19	1,500	1,500	7	8	11.95	11.74
1990 – Apr. 20	1,000	1,000	6	7	10.50	10.46
1990 – Apr. 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 – May 9	1,000	1,000	16	21	11.95	11.62
1990 – May 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 – Sept. 7	2,500	2,500	7	7	6.00	5.80
1990 – Sept. 11	2,000	2,000	17	17	8.80	8.24
1990 – Sept. 13	4,000	4,000	12	15	8.20	7.78
1990 – Sept. 14	3,000	3,000	11	14	7.20	6.97
1990 – Sept. 18	3,000	3,000	7	7	5.60	5.19
1990 – Sept. 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 – Oct. 5	1,000	1,000	17	26	10.60	10.33
1990 – Oct. 10	1,000	1,000	21	21	11.35	11.16
1990 – Oct. 11	750	750	20	20	11.40	11.11
1990 – Oct. 12	1,750	1,750	13	19	11.30	11.09
1990 – Oct. 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 – Nov. 13	750	450	10	10	13.35	13.20
1990 – Nov. 15	1,000	1,000	8	8	13.55	13.33
1990 – Nov. 29	2,250	1,035	5	5	14.10	13.91
1991 – Jan. 8	750	750	23	23	12.65	12.64
1991 – Jan. 10	3,000	3,000	13	14	12.45	12.37
1991 – Jan. 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 a30

Interest rates

	BI OPERATIONS						TREASURY BILLS			
	Base	Fixed term advances	Repurchase agreements				3-month	6-month	12-month	Average
			Purchases		Sales					
			minimum	average	maximum	average				
1989	13.50	13.74	12.78	13.17	12.44	12.21	12.65	12.55	12.55	12.58
1990	12.50	13.49	11.52	11.90	11.29	11.02	12.28	12.33	12.53	12.38
1991	12.00	12.50	10.76	10.89	13.69	13.21	12.66	12.53	12.39	12.54
1991 – Sept. ...	11.50	11.50	10.16	10.20	–	–	12.16	12.45	12.44	12.35
Oct.	11.50	11.50	10.50	10.68	–	–	12.01	12.06	12.07	12.05
Nov.	11.50	12.00	11.46	11.54	–	–	12.69	12.31	12.42	12.49
Dec.	12.00	12.50	12.44	12.63	–	–	13.85	13.27	12.86	13.36
1992 – Jan.	12.00	12.50	11.76	11.94	–	–	12.19	12.21	12.15	12.18
Feb.	12.00	12.50	11.88	11.96	–	–	12.73	12.17	12.09	12.32
Mar.	12.00	12.50	11.96	12.01	–	–	13.05	12.82	12.62	12.83
Apr.	12.00	12.50	12.27	12.30	–	–	13.49	13.43	13.06	13.35
May	12.00	12.50	12.31	12.33	–	–	13.45	13.21	13.00	13.24
June ...	12.00	13.00	13.91	14.01	–	–	14.42	13.85	13.59	14.00
July	13.75	15.25	15.61	15.81	–	–	15.56	15.32	14.69	15.24
Aug.	13.25	14.75	14.43	14.58	–	–	15.43	15.24	14.62	15.16
Sept. ...	15.00	16.50	17.49	18.06	–	–	18.05	18.52	17.02	17.98

Table a31

Short-term bank interest rates

	Interbank operations					Customer operations						ABI prime rate
	Sight deposits	Over-night	1-month	3-month	3-month Eurolira	Deposits		Certificates of deposit		Loans		
						Maximum	Average	6-month	12-month	Minimum	Average	
1988	11.73	11.76	–	–	11.91	9.62	6.77	9.98	10.06	12.34	13.67	13.00
1989	12.76	13.39	–	12.83	12.69	9.93	7.02	10.75	10.54	12.99	14.18	14.00
1990	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 – Sept. ...	11.43	10.63	11.46	11.61	11.25	9.50	6.48	10.37	10.32	12.04	13.72	12.50
Oct.	11.31	11.05	11.21	11.46	11.08	9.57	6.54	10.46	10.35	12.00	13.68	12.50
Nov.	11.30	11.48	11.71	11.63	11.34	9.60	6.58	10.46	10.27	11.99	13.64	12.50
Dec.	12.25	12.30	13.10	12.47	12.28	9.67	6.67	10.46	10.29	12.12	13.83	13.00
1992 – Jan.	12.36	12.26	12.26	12.00	11.71	9.76	6.78	10.49	10.34	12.43	14.13	13.00
Feb.	12.42	12.33	12.35	12.17	11.76	9.80	6.80	10.48	10.38	12.45	14.14	13.00
Mar.	12.45	12.24	12.33	12.25	11.86	9.80	6.84	10.49	10.38	12.43	14.07	13.00
Apr.	12.53	12.31	12.40	12.38	11.93	9.84	6.89	10.49	10.38	12.46	14.16	13.13
May	12.69	12.37	12.42	12.38	11.98	9.86	6.93	10.49	10.34	12.49	14.28	13.13
June ...	13.58	14.23	14.07	13.38	12.98	10.01	6.95	10.45	10.31	12.68	14.56	14.00
July	15.86	16.90	16.62	15.54	15.11	10.37	7.03	10.67	10.40	13.86	15.88	15.75
Aug.	15.96	15.78	15.74	15.22	14.83	10.78	7.14	11.13	10.60	14.38	16.77	15.38
Sept. ...	(20.21)	22.06	20.77	17.54	16.98	(11.46)	(7.33)	(12.04)	(11.15)	(15.50)	(17.87)	....

Principal assets and liabilities of banks

(billions of lire)

	ASSETS										
	Bank reserves	Loans		Securities			Shares and equity interests	Bad debts	Interbank accounts	Accounts with special credit institutions	Interest-bearing external assets
		in lire	in foreign currency		of which: Treasury bills	of which: Other government securities					
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	128,781	437,406	58,516	191,051	24,857	107,934	21,484	28,267	82,414	9,327	101,138
1991 – Sept. ..	124,728	455,356	69,055	170,517	20,853	99,831	22,663	32,892	64,787	7,826	97,701
Oct. ...	129,492	463,316	70,891	173,762	22,065	103,825	22,896	33,620	65,958	8,189	98,134
Nov. ...	130,896	468,408	70,942	174,842	22,189	104,264	23,331	33,728	66,713	10,114	101,744
Dec. ...	132,952	500,203	69,491	196,463	26,835	116,794	32,141	32,622	82,439	10,880	104,440
1992 – Jan. ...	131,038	495,235	73,595	156,951	15,675	92,970	31,069	33,096	56,768	10,067	96,291
Feb. ...	138,167	492,024	76,635	151,133	15,300	88,454	31,056	33,409	66,118	10,026	89,685
Mar. ...	128,376	492,718	79,623	182,896	18,148	114,492	31,147	33,827	77,674	10,961	94,081
Apr. ...	128,537	495,457	81,189	197,686	22,110	126,648	31,202	34,238	86,466	11,246	92,143
May ...	131,296	490,991	82,141	199,816	23,295	127,051	33,084	34,624	88,399	11,863	93,047
June ..	133,147	509,772	83,048	205,482	22,633	130,653	32,662	34,617	91,448	13,014	92,792
July ...	134,210	513,066	89,692	182,882	16,099	117,763	33,895	35,317	88,790	13,368	89,824
Aug. ...	128,343	498,779	91,676	191,615	14,286	128,290	34,241	35,715	83,965	13,152	85,832
Sept. ..	....	(501,179)	(102,176)	(195,715)	(15,586)	....	....	....	....	....	....

	LIABILITIES										
	Deposits			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
		of which: current accounts	of which: CDs								
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	686,279	390,416	119,397	4,097	1,724	7,563	89,751	7,141	95,695	158,081	8,052
1991 – Sept. ..	669,422	369,901	143,441	4,673	1,678	3,815	70,064	6,591	109,772	177,029	2,483
Oct. ...	675,988	373,811	148,429	4,749	1,717	2,366	70,620	5,457	110,241	180,753	14,369
Nov. ...	675,888	371,785	151,003	5,075	1,746	3,340	71,047	6,259	110,288	186,883	20,193
Dec. ...	748,800	435,469	153,506	5,203	1,821	8,826	87,976	7,777	126,552	187,942	–13,266
1992 – Jan. ...	698,471	385,970	160,527	5,851	1,849	2,822	62,464	7,783	140,796	186,765	–22,692
Feb. ...	696,673	383,280	164,477	5,753	1,818	2,311	72,123	7,995	143,211	188,550	–30,182
Mar. ...	708,798	393,683	168,521	5,811	1,792	2,179	82,765	7,606	145,721	204,531	–27,900
Apr. ...	714,012	395,675	172,383	5,874	1,769	2,008	92,570	6,131	146,509	209,417	–20,125
May ...	714,561	394,229	175,074	5,893	1,688	2,701	95,532	5,842	147,990	213,059	–22,006
June ..	722,321	401,751	177,452	6,206	1,645	13,608	98,348	7,299	148,642	218,054	–20,143
July ...	697,278	379,127	177,532	7,952	1,650	16,549	96,082	7,290	150,004	218,179	–13,941
Aug. ...	688,188	370,854	177,539	8,283	1,547	25,679	89,800	6,156	149,944	213,967	–20,248
Sept. ..	(707,888)	(385,954)	(183,239)	....	....	....	....	....	....	....	....

Table a33

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
1988	5,461	202,951	3,879	16,880	3,949	4,123	551	1,621
1989	5,099	238,586	2,791	13,875	4,481	4,344	1,280	4,056
1990	5,504	277,402	1,708	15,909	4,867	5,476	1,311	3,857
1991 – Sept.	6,977	301,247	963	19,807	5,160	6,249	1,800	4,732
Oct.	5,544	305,010	963	19,886	5,160	6,299	1,833	4,650
Nov.	6,499	310,074	963	18,907	5,457	6,242	1,829	4,710
Dec.	7,362	314,656	963	15,779	5,426	6,097	1,903	4,769
1992 – Jan.	8,176	317,025	737	16,304	5,424	6,364	1,927	4,479
Feb.	9,215	319,978	737	17,491	5,421	6,395	1,948	4,426
Mar.	8,619	324,780	737	18,797	4,988	6,190	1,962	3,769
Apr.	6,893	328,600	737	18,587	4,988	6,461	1,892	3,567
May	5,781	332,936	737	17,160	4,969	6,424	1,885	3,611
June	6,262	330,234	(736)	18,336	5,076	6,449	1,974	3,858
July	....	334,310	....	....	....	....	....	....
Aug.	....	(335,600)	....	....	....	....	....	....
Sept.	....	(338,020)	....	....	....	....	....	....

	LIABILITIES								
	Bonds		Certificates of deposit	Short-term financing	Public funds	*Mediocredito centrale*	Capital and reserves	Foreign liabilities	Other
	ordinary	on behalf of the Treasury							
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	52,730	–12,687
1990	135,590	1,759	64,836	8,478	9,323	4,149	30,867	74,144	–13,112
1991 – June	141,841	1,316	68,438	7,867	9,292	4,198	33,199	86,069	–18,575
July	142,042	1,006	68,394	8,390	9,206	4,237	33,199	86,944	–12,765
Aug.	143,340	991	69,208	7,043	8,985	4,318	33,199	87,991	–11,291
Sept.	145,132	984	69,108	7,138	9,215	4,126	33,404	88,555	–10,728
Oct.	146,769	984	69,779	6,088	9,299	4,217	33,404	90,084	–11,281
Nov.	148,970	981	70,233	7,293	9,224	4,275	33,404	91,715	–11,413
Dec.	150,808	976	72,505	7,601	9,378	4,103	35,999	93,575	–17,992
1992 – Jan.	150,253	765	73,010	8,626	9,257	4,140	35,999	93,974	–15,590
Feb.	153,544	750	73,452	7,840	9,335	4,152	35,999	95,353	–14,813
Mar.	155,855	748	73,634	7,763	9,227	3,913	37,219	97,434	–15,953
Apr.	157,962	748	74,097	7,673	9,255	4,079	37,219	99,201	–18,509
May	158,836	747	74,321	8,105	9,193	4,087	37,219	99,396	–18,401
June	160,306	(747)	75,206	8,555	9,049	4,117	36,256	99,881	(–21,192)

Table a34

Loans by branch of economic activity

(billions of lire; percentage changes)

August 1992

	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	9,361	–2.6	6,673	9.2	7,607	2.5	5,493	8.6
Energy products	7,292	39.4	58	9.4	9,105	18.5	13	..
Ferrous and non-ferrous ores and metals	6,835	4.9	325	4.8	3,364	9.1	29	16.0
Non-metallic mineral products	9,986	11.9	1,833	7.1	4,792	28.5	223	8.8
Chemical products	10,597	0.3	453	10.2	4,951	19.1	50	22.0
Metal products except machinery and transport equipment	15,553	12.9	4,787	6.8	4,478	1.7	431	31.0
Agricultural and industrial machinery	16,085	7.9	2,028	6.5	8,789	6.3	385	10.0
Office and data processing machines; precision and optical instruments	3,487	3.6	339	9.0	2,086	–7.2	38	26.7
Electrical goods	12,874	14.2	1,132	10.8	5,310	13.9	111	30.6
Motor vehicles	7,781	18.7	608	10.9	5,442	0.7	88	29.4
Food products, beverages and tobacco products	17,389	6.8	2,729	9.6	8,432	3.8	607	15.8
Textiles, leathers, footwear and clothing	27,073	6.1	5,713	0.8	5,170	6.9	517	17.2
Paper, products of printing and publishing	8,139	5.9	1,389	7.3	3,883	11.7	134	27.6
Rubber and plastic products	5,824	3.4	1,244	5.0	1,706	16.1	110	29.4
Other manufacturing products	10,258	10.2	4,323	9.7	2,563	9.9	444	16.2
Building and construction	44,352	21.0	12,801	12.5	27,946	21.3	3,463	16.9
Wholesale and retail trade	61,683	11.6	28,008	12.6	11,757	15.2	4,859	15.5
Lodging and catering services	4,920	17.9	3,920	20.0	4,531	27.5	2,156	18.9
Inland transport services	6,358	16.8	2,775	8.5	16,488	18.9	202	29.5
Maritime and air transport services	2,109	30.1	54	8.0	1,930	1.7	5	..
Auxiliary transport services	3,267	37.2	289	5.1	2,309	9.7	62	37.8
Communication services	779	19.8	17	6.3	10,644	8.7	1	..
Other market services	44,665	30.4	7,490	17.8	20,721	21.0	2,010	30.9
TOTAL BORROWINGS	336,667	13.9	88,988	10.9	174,004	13.8	21,431	16.1
TOTAL FACILITIES GRANTED	568,868	7.8	113,735	8.6	230,840	12.9	22,613	15.1

Italian investment securities portfolios

(end-of-period balance sheet

	LIRA SECURITIES						
	Government securities	of which:			Bonds	Shares	TOTAL
		Treasury bills	Treasury bonds	Treasury credit certificates			
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	23,250	2,168	1,487	17,347	3,829	10,813	37,893
1991	30,504	1,049	5,904	19,699	3,513	8,297	42,313
1990 – 3rd qtr.	21,137	1,420	1,368	16,545	4,056	11,713	36,905
4th "	23,250	2,168	1,487	17,347	3,829	10,813	37,893
1991 – 1st qtr.	26,355	1,652	3,574	17,854	3,819	10,406	40,579
2nd "	28,562	1,052	5,030	18,951	3,866	10,277	42,705
3rd "	29,517	1,139	4,681	19,905	3,796	9,280	42,593
4th "	30,504	1,049	5,904	19,699	3,513	8,297	42,313
1992 – 1st qtr.	31,448	894	6,815	19,603	3,095	8,045	42,589
2nd "	34,234	888	7,058	21,128	3,001	7,262	44,498
3rd "	(27,718)	(784)	(4,203)	....	(2,953)	(5,123)	(35,794)
1991 – Sept.	29,517	1,139	4,681	19,905	3,796	9,280	42,593
Oct.	30,043	826	5,328	20,574	3,610	8,675	42,328
Nov.	30,348	1,110	5,643	19,745	3,513	8,608	42,470
Dec.	30,504	1,049	5,904	19,699	3,513	8,297	42,313
1992 – Jan.	31,647	973	7,039	19,797	3,255	8,767	43,669
Feb.	32,994	884	7,464	20,491	3,180	8,742	44,916
Mar.	31,448	894	6,815	19,603	3,095	8,045	42,589
Apr.	33,942	1,046	6,423	21,389	3,131	8,019	45,092
May	35,517	858	7,130	21,862	3,102	7,899	46,518
June	34,234	888	7,058	21,128	3,001	7,262	44,498
July	30,699	526	5,152	20,138	2,836	5,956	39,491
Aug.	29,940	574	4,864	19,336	2,761	5,940	38,641
Sept.	(27,718)	(784)	(4,203)	....	(2,953)	(5,123)	(35,794)

Table a35

funds:
and net assets

values; billions of lire)

FOREIGN CURRENCY SECURITIES		Other financial assets	Total portfolio	NET ASSETS	Memorandum items:	
	of which: shares				Gross sales	Net sales
7,922	3,485	638	49,482	51,565	6,279	–12,960
6,905	4,940	1,053	45,877	49,165	10,020	–6,663
5,428	3,869	1,138	44,459	47,379	15,146	829
8,373	5,211	938	51,624	56,191	21,859	5,315
4,881	3,395	1,145	42,931	46,726	3,953	1,227
5,428	3,869	1,138	44,459	47,379	3,980	981
6,510	4,668	1,243	48,332	50,861	4,828	1,314
7,911	5,447	1,013	51,628	53,964	5,940	1,788
8,199	5,621	1,126	51,918	55,338	5,251	1,335
8,373	5,211	938	51,624	56,191	5,840	878
10,073	5,698	1,055	53,717	59,753	8,577	3,477
10,319	5,289	842	55,658	61,074	7,131	1,591
(11,427)	(4,946)	(942)	(48,163)	(56,619)	(5,060)	(–2,970)
8,199	5,621	1,126	51,918	55,338	1,433	22
8,438	5,521	981	51,748	55,653	2,142	283
8,210	5,196	1,043	51,723	55,844	2,086	413
8,373	5,211	938	51,624	56,191	1,612	182
9,304	5,609	1,015	53,988	58,102	2,466	887
9,773	5,900	1,058	55,747	59,492	3,009	1,359
10,073	5,698	1,055	53,717	59,753	3,102	1,231
10,229	5,748	1,072	56,392	61,245	2,764	894
10,900	5,876	981	58,400	62,277	2,286	722
10,319	5,289	842	55,658	61,074	2,081	–25
10,084	4,739	816	50,392	58,169	2,123	–802
10,165	4,452	904	49,710	58,161	1,272	–210
(11,427)	(4,946)	(942)	(48,163)	(56,619)	(1,665)	(–1,958)

Table a36

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	
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	–9,013	–4,168	125,039	18,370
1990	116,753	5,985	–2,592	120,147	–1,873	–577	–8,640	3,776	127,460	21,246
1991	127,114	15,939	3,813	146,865	16,642	–597	5,860	6,726	118,235	18,363
1990 – 2nd qtr. ...	33,863	1,644	370	35,878	–3,671	–50	3,640	3,571	32,387	4,960
3rd " ...	19,525	1,036	–1,607	18,955	–6,502	–221	9,670	98	15,910	5,725
4th " ...	44,108	2,676	–907	45,877	10,791	–85	15,470	1,964	17,737	7,451
1991 – 1st qtr. ...	25,648	2,229	2,111	29,988	2,833	–182	–39,330	2,827	63,839	1,974
2nd " ...	33,902	4,388	352	38,642	–2,590	–33	11,030	2,169	28,065	3,099
3rd " ...	31,900	3,190	–165	34,925	–4,338	–282	7,390	1,029	31,125	4,044
4th " ...	35,665	6,132	1,515	43,311	20,737	–102	26,770	701	–4,795	9,246
1992 – 1st qtr. ...	40,633	(4,171)	–762	(44,042)	3,577	(–169)	*(–14,290)*	540	*(54,384)*	(5,344)
2nd " ...	44,710	(4,596)	–788	(48,518)	17,841	(–52)	*(22,980)*	3,111	*(4,638)*	(3,136)
1991 – Aug.	10,493	1,235	–260	11,468	39	–27	4,290	878	6,288	950
Sept.	13,603	1,589	981	16,172	–7,497	–195	13,150	257	10,458	1,806
Oct.	15,472	1,572	–264	16,780	3,461	–48	3,270	161	9,936	780
Nov.	17,148	2,169	555	19,872	8,821	–3	1,080	398	9,576	2,932
Dec.	3,045	2,391	1,224	6,659	8,454	–51	22,420	142	–24,306	5,535
1992 – Jan.	8,779	(–964)	–61	(7,754)	6,072	(–25)	*(–40,550)*	724	*(41,534)*	(1,162)
Feb.	13,620	(3,582)	–601	(16,601)	9,632	(–94)	*(–5,790)*	1,273	*(11,580)*	(1,774)
Mar.	18,234	(1,553)	–100	(19,687)	–12,126	(–49)	*(32,050)*	–1,457	*(1,270)*	(2,408)
Apr.	9,155	(1,882)	–106	(10,931)	–8,237	(–12)	*(15,070)*	2,479	*(1,631)*	(921)
May	24,061	(1,222)	–228	(25,056)	11,404	(–4)	*(2,130)*	1,585	*(9,941)*	(768)
June	11,494	(1,492)	–455	(12,531)	14,674	(–36)	*(5,780)*	–953	*(–6,934)*	(1,447)
July	5,365	(–1,272)	–880	(3,213)	6,392	(–33)	*(–22,570)*	–2,773	*(22,196)*	(1,373)
Aug.	1,185	(881)	–346	(1,720)	(–13,658)	(–25)	*(8,420)*	–945	*(7,928)*	(82)

Issue conditions of Treasury bonds

ABI number	Maturity		Date of issue	Price at issue	Yield at issue gross	Yield at issue net	Amount taken up (lire bn.)	Coupon gross	Coupon net
12686	BTP	1.1.97	8.1.92	99.05	12.68	10.98	3,500	6.00	5.2500
12686	BTP	1.1.97	5.2.92	99.45	12.49	10.77	3,000	6.00	5.2500
12686	BTP	1.1.97	4.3.92	99.50	12.47	10.72	3,000	6.00	5.2500
12686	BTP	1.1.97	3.4.92	98.80	12.68	10.89	6,000	6.00	5.2500
12688	BTP	17.1.99	17.1.92	99.60	12.44	10.78	2,000	6.00	5.2500
12688	BTP	17.1.99	18.2.92	99.15	12.53	10.84	2,000	6.00	5.2500
12688	BTP	17.1.99	17.3.92	99.70	12.40	10.70	3,000	6.00	5.2500
12688	BTP	17.1.99	21.4.92	98.80	12.61	10.86	3,000	6.00	5.2500
36605	BTP	1.5.02	4.5.92	99.25	12.50	10.86	5,000	6.00	5.2500
36605	BTP	1.5.02	2.6.92	99.30	12.48	10.82	3,000	6.00	5.2500
36605	BTP	1.5.02	3.7.92	95.50	13.22	11.48	2,000	6.00	5.2500
36606	BTP	1.5.97	5.5.92	98.80	12.73	11.04	6,000	6.00	5.2500
36606	BTP	1.5.97	3.6.92	98.50	12.80	11.08	4,000	6.00	5.2500
36606	BTP	1.5.97	6.7.92	96.00	13.57	11.77	1,500	6.00	5.2500
36607	BTP	18.5.99	18.5.92	99.30	12.51	10.85	5,000	6.00	5.2500
36607	BTP	18.5.99	19.6.92	95.60	13.40	11.66	1,500	6.00	5.2500
36607	BTP	18.5.99	21.7.92	95.00	13.55	11.78	1,000	6.00	5.2500
36614	BTP	1.9.02	3.9.92	92.10	13.92	12.17	1,500	6.00	5.2500
36614	BTP	1.9.02	7.10.92	88.80	14.61	12.78	2,962	6.00	5.2500
36613	BTP	1.9.97	4.9.92	92.05	14.82	12.96	970	6.00	5.2500
36613	BTP	1.9.97	6.10.92	90.60	15.27	13.35	3,000	6.00	5.2500
36615	BTP	1.10.95	6.10.92	92.75	15.74	13.75	3,000	6.00	5.2500
36615	BTP	1.10.95	21.10.92	93.00	15.56	13.68	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 gross	Yield at issue net	Amount taken up (ecu mill.)	Lira/ecu exchange rate at issue	Coupon gross	Coupon net
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
13209	CTE	22.11.96	22.11.91	101.95	10.07	8.77	700	1,541.10	10.60	9.2750
36602	CTE	23.3.97	23.3.92	101.90	9.69	8.43	750	1,537.47	10.20	8.9250
36602	CTE	23.3.97	27.4.92	100.05	10.16	8.86	750	1,540.32	10.20	8.9250
36610	CTE	26.5.97	26.5.92	102.05	9.95	8.66	750	1,547.38	10.50	9.1875

Table a37 cont.

Issue conditions of Treasury option certificates

ABI number	Maturity		Date of issue	Price at issue	Yield at issue		Amount take up (lire bn.)	Coupon		Date of prepay-ment
					gross	net		gross	net	
13206	CTO	19.9.97	21.10.91	100.45	12.22	10.59	2,500	6.00	5.2500	19.9.94
13206	CTO	19.9.97	19.11.91	100.00	12.33	10.67	2,500	6.00	5.2500	19.9.94
13212	CTO	20.1.98	20.1.92	100.45	12.24	10.63	2,000	6.00	5.2500	20.1.95
13212	CTO	20.1.98	19.2.92	100.00	12.34	10.70	2,000	6.00	5.2500	20.1.95
13212	CTO	20.1.98	19.3.92	99.95	12.35	10.68	2,500	6.00	5.2500	20.1.95
13212	CTO	20.1.98	17.4.92	99.65	12.42	10.72	4,000	6.00	5.2500	20.1.95
36608	CTO	19.5.98	19.5.92	99.60	12.45	10.84	4,000	6.00	5.2500	19.5.95

Issue conditions of Treasury credit certificates

ABI number	Maturity		Date of issue	Price at issue	Yield at issue		Amount taken up (lire bn.)	Spread	First coupon	
					gross	net			gross	net
36601	CCT	1.3.99	18.3.92	99.05	13.54	11.77	3,500	0.50	6.00	5.2500
36603	CCT	1.4.99	1.4.92	98.20	14.02	12.21	9,000	0.50	6.00	5.2500
36603	CCT	1.4.99	16.4.92	98.60	14.32	12.46	3,000	0.50	6.00	5.2500
36604	CCT	1.5.99	4.5.92	98.60	14.32	12.47	7,000	0.50	6.00	5.2500
36604	CCT	1.5.99	15.5.92	98.95	14.14	12.29	3,000	0.50	6.00	5.2500
36611	CCT	1.6.99	1.6.92	98.75	14.18	12.34	3,000	0.50	6.00	5.2500
36611	CCT	1.6.99	18.6.92	97.25	14.95	13.03	1,500	0.50	6.00	5.2500
36611	CCT	1.6.99	2.7.92	97.00	15.23	13.26	4,000	0.50	6.00	5.2500
36611	CCT	1.6.99	20.7.92	96.65	15.85	13.79	1,500	0.50	6.00	5.2500
36612	CCT	1.8.99	4.8.92	94.40	17.23	15.04	2,500	0.50	7.00	6.1250
36612	CCT	1.8.99	13.8.92	95.20	17.00	14.82	1,500	0.50	7.00	6.1250
36612	CCT	1.8.99	2.9.92	94.00	17.35	15.12	2,000	0.50	7.00	6.1250
36612	CCT	1.8.99	5.10.92	92.80	20.04	17.44	2,926	0.50	7.00	6.1250
36612	CCT	1.8.99	20.10.92	92.25	20.90	18.17	2,500	0.50	7.00	6.1250

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	Treasury option certificates	Other bonds	Treasury credit certificates	Treasury certificates in ecus	Treasury discount certificates	Index-linked Treasury certificates	Treasury bonds	Treasury option certificates	Investment funds
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	10.65	11.61	348.83	238.78	108.48	148.24	198.46	101.80	189.77
1990	12.31	9.99	12.41	6.87	11.87	11.48	12.03	397.58	255.49	124.16	164.87	221.95	112.37	201.58
1991	11.78	9.02	11.51	5.50	11.37	11.19	11.63	450.78	280.71	141.56	193.75	250.71	126.79	207.27
1990 – 3rd qtr. .	11.79	9.97	11.77	6.45	11.55	11.37	11.92	405.41	259.30	127.40	168.88	225.71	114.46	204.42
4th " .	12.08	9.93	12.14	6.12	11.74	11.40	12.07	417.03	268.31	130.49	176.13	231.57	117.59	194.06
1991 – 1st qtr. .	12.55	9.48	12.37	6.27	11.91	11.45	12.28	428.89	274.31	134.28	182.00	237.94	120.76	197.88
2nd " .	11.35	8.70	11.02	5.40	11.13	11.07	11.51	445.84	281.12	140.51	190.76	248.23	125.62	209.38
3rd " .	11.58	9.00	11.41	5.33	11.33	11.18	11.45	457.18	283.83	143.43	197.54	254.17	128.38	210.93
4th " .	11.64	8.92	11.24	5.01	11.11	11.05	11.29	471.21	283.61	148.02	204.70	262.51	132.40	210.87
1992 – 1st qtr. .	11.58	8.60	11.03	5.14	10.95	10.95	11.12	485.26	288.65	152.77	210.36	270.66	136.31	216.67
2nd " .	12.38	8.78	11.94	6.01	11.23	11.15	11.32	496.59	292.07	154.96	214.36	276.12	138.90	217.01
3rd " .	15.03	8.97	14.65	7.97	12.84	12.00	12.78	495.47	295.45	154.77	217.38	273.80	139.26	209.86
1991 – Sept. ...	11.73	8.99	11.51	5.39	11.24	11.15	11.51	461.57	284.41	144.63	199.46	256.97	129.65	211.62
Oct.	11.53	8.85	11.24	5.12	11.02	11.00	11.24	467.36	282.93	146.57	202.40	260.65	131.44	211.82
Nov.	11.48	8.98	11.03	4.92	11.06	11.01	11.21	471.81	283.35	148.48	205.05	262.79	132.56	211.07
Dec.	11.92	8.93	11.46	5.00	11.25	11.12	11.43	474.46	284.55	149.02	206.65	264.08	133.19	209.73
1992 – Jan.	11.72	8.51	10.97	4.90	10.98	10.96	11.14	481.27	288.27	151.88	209.12	268.28	135.16	215.93
Feb.	11.34	8.66	10.88	5.03	10.93	10.94	11.07	485.37	288.08	153.02	210.64	270.75	136.36	217.46
Mar.	11.67	8.63	11.23	5.49	10.94	10.96	11.14	489.14	289.61	153.42	211.33	272.96	137.40	216.62
Apr.	12.18	8.67	11.67	5.92	11.05	11.04	11.11	492.78	290.81	154.10	212.39	274.83	138.12	216.83
May	12.22	8.78	11.75	6.00	11.04	11.06	11.24	497.95	292.42	155.39	214.39	277.52	139.29	217.91
June ...	12.73	8.89	12.39	6.10	11.61	11.34	11.60	499.03	292.97	155.40	216.32	276.00	139.29	216.29
July	13.96	8.70	13.49	6.73	12.49	11.80	12.15	496.65	293.37	155.06	217.04	273.51	138.68	211.11
Aug.	14.38	8.82	13.80	7.27	12.48	11.83	12.38	498.88	292.98	156.12	218.43	275.53	140.01	209.68
Sept. ...	16.77	9.39	16.68	9.90	13.54	12.37	13.81	490.89	300.00	153.13	216.67	272.35	139.10	208.79

The money

(stocks in

	END-OF-PERIOD				
	Currency	Current accounts		Other items	Total: M1
		Bank	Post Office		
1984	41,192	221,733	7,658	10,048	280,631
1985	45,196	244,048	8,963	12,304	310,511
1986	48,336	275,242	9,683	11,280	344,541
1987	52,718	297,245	10,459	11,609	372,031
1988	57,167	323,319	7,959	12,200	400,644
1989	67,644	356,073	9,390	18,681	451,787
1990 – Aug.	62,597	328,764	9,361	10,000	410,722
Sept.	63,737	338,449	9,864	12,214	424,263
Oct.	62,091	342,768	10,615	12,556	428,030
Nov.	63,915	337,526	8,296	15,886	425,622
Dec.	69,449	388,016	8,334	17,068	482,867
1991 – Jan.	66,052	355,544	8,979	14,430	445,006
Feb.	66,303	349,049	9,017	14,460	438,829
Mar.	68,771	352,953	8,482	14,026	444,232
Apr.	66,010	357,825	7,935	14,098	445,867
May	66,477	349,156	8,325	15,309	439,268
June	68,894	362,596	8,193	16,650	456,333
July	70,969	358,952	7,576	15,486	452,984
Aug.	68,707	355,117	7,867	12,109	443,799
Sept.	69,102	368,664	8,046	14,698	460,509
Oct.	69,033	371,889	7,606	16,224	464,752
Nov.	70,937	371,127	7,499	18,398	467,962
Dec.	76,354	434,733	7,546	19,429	538,063
1992 – Jan.	72,132	384,833	9,692	14,300	480,957
Feb.	71,653	382,009	8,188	14,236	476,086
Mar.	72,330	391,686	8,366	14,481	486,862
Apr.	73,294	394,286	6,974	14,238	488,791
May	74,648	393,525	7,982	15,028	491,182
June	73,680	400,544	8,310	16,415	498,950
July	79,221	378,878	8,548	17,392	484,040
Aug.	(75,763)	371,645	9,036	(12,050)	(468,493)
Sept.	(78,465)	*(386,745)*	*(9,218)*	*(16,030)*	*(490,458)*

supply

billions of lire)

DATA					AVERAGE DATA		
Bank CDs	Bank savings deposits	Post Office savings accounts	Total: M2	Extended M2	M1	M2	Extended M2
7,547	182,201	8,345	478,723	479,137	....	448,395	448,727
13,309	196,443	9,304	529,568	529,991	289,474	496,028	496,647
21,465	198,049	10,804	574,859	575,234	325,728	548,856	549,234
31,876	200,485	13,188	617,579	617,900	351,092	588,218	588,589
55,866	191,231	16,109	663,850	664,509	376,617	633,041	633,750
86,014	180,862	19,732	738,395	739,476	415,019	695,759	696,758
109,179	165,770	21,451	707,122	709,148	410,976	706,823	708,820
111,276	166,952	21,587	724,078	726,368	423,533	721,195	723,353
116,898	166,227	21,701	732,856	734,817	426,405	728,682	730,808
119,035	166,569	21,917	733,143	735,374	427,550	733,149	735,245
119,333	176,712	23,551	802,463	804,778	442,950	752,883	755,156
124,108	170,874	23,710	763,698	767,980	453,866	771,706	775,005
126,491	168,495	23,999	757,815	760,826	440,545	758,790	762,437
128,929	166,128	24,167	763,456	767,003	438,999	757,522	760,801
130,240	164,228	24,281	764,616	767,803	441,544	759,670	763,037
133,309	161,660	24,274	758,510	761,636	444,942	765,062	768,218
134,765	161,960	24,328	777,387	780,226	440,379	759,574	762,556
137,406	159,132	24,424	773,945	777,147	448,720	769,051	772,072
139,838	157,676	24,644	765,957	769,173	442,992	763,939	767,148
143,373	156,316	24,766	784,964	788,406	449,288	771,355	774,684
148,371	153,924	24,861	791,908	795,352	458,137	782,924	786,367
150,944	153,356	25,042	797,303	800,812	466,101	793,938	797,414
153,446	160,231	26,512	878,252	881,966	489,277	820,873	824,484
160,474	152,809	26,758	820,998	824,594	504,332	844,217	847,872
164,427	149,737	27,043	817,294	821,702	476,150	816,227	820,230
168,471	147,594	27,314	830,241	835,440	471,582	813,306	818,111
172,331	146,825	27,493	835,440	841,474	484,933	830,132	835,749
175,018	146,119	27,560	839,879	846,583	486,589	834,003	840,372
177,360	143,963	27,658	847,930	853,934	484,118	832,276	838,629
177,385	141,965	27,762	831,152	837,049	(483,055)	(830,448)	(836,399)
177,383	141,452	28,041	(815,370)	(820,954)	(466,334)	(813,277)	(819,018)
(183,079)	*(139,806)*	*(28,230)*	*(841,573)*	....	*(470,274)*	*(816,351)*	....

Table a40

Liquid assets

(end-of-period stocks in billions of lire)

	M2	Securities acquired under repos	PO savings certificates	Treasury bills in lire and ecus	Special credit institution CDs	Banker's acceptances	Total liquid assets
1984	478,723	947	34,359	108,992	20,261	1,593	644,874
1985	529,568	949	41,192	124,738	21,564	1,514	719,526
1986	574,859	1,172	50,129	128,580	23,950	1,570	780,261
1987	617,579	2,650	59,870	162,519	26,689	2,375	871,683
1988	663,850	4,267	70,426	209,138	40,015	2,121	989,818
1989	738,395	5,043	80,659	253,041	49,893	1,612	1,128,642
1990 – July	714,570	14,948	82,277	278,040	58,427	1,614	1,149,876
Aug.	707,122	14,112	82,523	278,928	59,207	1,540	1,143,432
Sept.	724,078	12,885	82,636	282,456	59,861	1,258	1,163,173
Oct.	732,856	13,398	82,787	282,943	60,773	1,408	1,174,164
Nov.	733,143	15,989	82,918	283,971	61,491	1,515	1,179,028
Dec.	802,463	8,209	90,594	280,359	62,678	1,540	1,245,842
1991 – Jan.	763,698	13,563	90,897	294,779	62,508	1,775	1,227,219
Feb.	757,815	14,663	91,134	296,817	63,019	1,944	1,225,392
Mar.	763,456	15,597	91,223	299,663	63,090	1,961	1,234,989
Apr.	764,616	14,178	91,336	301,379	63,903	1,861	1,237,273
May	758,510	17,573	91,377	303,385	63,914	1,829	1,236,589
June	777,387	21,357	91,449	299,676	66,146	1,614	1,257,628
July	773,945	33,599	91,482	303,669	66,211	1,685	1,270,592
Aug.	765,957	39,011	91,656	302,508	67,028	1,778	1,267,939
Sept.	784,964	38,306	91,629	301,518	66,854	1,619	1,284,889
Oct.	791,908	51,169	91,626	301,347	67,477	1,413	1,304,939
Nov.	797,303	55,519	91,579	300,951	67,309	1,428	1,314,089
Dec.	878,252	47,267	100,253	296,877	69,463	2,103	1,394,215
1992 – Jan.	820,998	70,592	100,204	*(310,561)*	70,150	1,013	*(1,373,518)*
Feb.	817,294	76,123	100,045	*(309,937)*	70,539	1,043	*(1,374,979)*
Mar.	830,241	69,707	99,710	*(307,853)*	70,674	1,009	*(1,379,193)*
Apr.	835,440	74,121	99,389	*(309,152)*	71,507	1,257	*(1,390,865)*
May	839,879	82,526	99,018	*(313,838)*	71,573	1,235	*(1,408,070)*
June	847,930	79,203	98,718	*(311,435)*	72,651	1,042	*(1,410,980)*
July	831,152	92,415	98,468	*(320,246)*	*(73,884)*	1,061	*(1,417,226)*
Aug.	(815,370)	(93,669)	98,488	*(325,816)*	*(74,607)*	*(1,047)*	*(1,408,997)*

Financial assets

(end-of-period stocks in billions of lire)

	Liquid assets	Medium and long-term securities: Government securities	Medium and long-term securities: Bonds of Crediop and autonomous gov. agencies	Medium and long-term securities: Other bonds	Units of investment funds	Other financial assets	Other domestic financial assets	Total financial assets
1984	644,874	103,811	3,045	34,404	1,164	2,592	789,891	796,279
1985	719,526	145,167	4,563	39,201	19,784	2,901	931,142	939,419
1986	780,261	194,216	5,428	45,666	65,077	3,630	1,094,278	1,102,827
1987	871,683	253,044	6,876	54,058	59,454	3,542	1,248,656	1,255,745
1988	989,818	313,731	7,931	70,449	51,565	3,143	1,436,637	1,436,717
1989	1,128,642	381,585	7,729	79,906	49,165	3,209	1,650,236	1,663,473
1990 – July	1,149,876	431,599	8,693	87,320	50,560	3,314	1,731,362	1,748,632
Aug.	1,143,432	435,321	8,712	88,194	48,120	3,338	1,727,118	1,744,568
Sept.	1,163,173	434,163	8,681	88,259	46,726	3,346	1,744,348	1,762,133
Oct.	1,174,164	444,702	8,747	91,658	47,725	3,353	1,770,350	1,787,926
Nov.	1,179,028	452,827	8,661	95,166	46,528	3,341	1,785,552	1,804,354
Dec.	1,245,842	453,965	9,058	87,938	47,379	3,432	1,847,614	1,867,177
1991 – Jan.	1,227,219	465,804	8,817	*(91,533)*	46,714	3,357	*(1,843,444)*	*(1,865,393)*
Feb.	1,225,392	478,538	9,063	*(95,354)*	49,379	3,271	*(1,860,997)*	*(1,881,409)*
Mar.	1,234,989	485,788	9,050	*(95,466)*	50,861	3,217	*(1,879,371)*	*(1,900,435)*
Apr.	1,237,273	497,208	9,231	*(98,246)*	51,723	3,286	*(1,896,967)*	*(1,917,944)*
May	1,236,589	501,184	9,294	*(101,457)*	53,365	3,350	*(1,905,239)*	*(1,926,531)*
June	1,257,628	496,274	9,399	*(104,065)*	53,964	3,366	*(1,924,697)*	*(1,945,670)*
July	1,270,592	491,233	9,380	*(105,598)*	54,509	3,384	*(1,934,697)*	*(1,956,122)*
Aug.	1,267,939	492,143	9,473	*(106,625)*	55,275	3,186	*(1,934,641)*	*(1,956,803)*
Sept.	1,284,889	498,992	9,439	*(108,235)*	55,338	3,414	*(1,960,306)*	*(1,983,165)*
Oct.	1,304,939	494,474	9,285	*(111,071)*	55,653	3,475	*(1,978,897)*	*(2,002,038)*
Nov.	1,314,089	495,883	9,406	*(112,909)*	55,844	3,476	*(1,991,607)*	*(2,015,783)*
Dec.	1,394,215	485,315	9,355	*(115,118)*	56,191	3,543	*(2,063,736)*	*(2,088,671)*
1992 – Jan.	*(1,373,518)*	*(489,998)*	*(8,518)*	*(115,566)*	58,102	3,550	*(2,049,253)*	*(2,073,270)*
Feb.	*(1,374,979)*	*(492,982)*	*(8,311)*	*(118,726)*	59,492	3,582	*(2,058,071)*	*(2,082,688)*
Mar.	*(1,379,193)*	*(500,852)*	*(7,654)*	*(120,414)*	59,753	3,596	*(2,071,462)*	*(2,097,073)*
Apr.	*(1,390,865)*	*(496,501)*	*(8,069)*	*(122,301)*	61,245	3,609	*(2,082,590)*	*(2,108,888)*
May	*(1,408,070)*	*(493,180)*	*(8,914)*	*(123,572)*	62,277	3,616	*(2,099,630)*	*(2,126,475)*
June	*(1,410,980)*	*(491,041)*	*(8,055)*	*(121,710)*	61,074	3,665	*(2,096,526)*	*(2,123,918)*
July	*(1,417,226)*	*(487,163)*	*(7,826)*	*(120,986)*	58,169	*(3,559)*	*(2,094,928)*	*(2,122,402)*
Aug.	*(1,408,997)*	*(488,677)*	*(7,791)*	*(120,782)*	58,161	*(3,364)*	*(2,087,771)*	*(2,114,629)*

Cre

(end-of-period stocks

	Finance to the non-state sector				
	From banks	From special credit institutions	Bonds placed domestically	Total domestic finance	Foreign finance
1984	*(223,063)*	*(120,427)*	23,194	*(366,684)*	57,640
1985	*(251,462)*	*(131,944)*	24,841	*(408,247)*	55,364
1986	*(273,872)*	*(148,528)*	30,150	*(452,549)*	52,244
1987	*(296,271)*	*(168,692)*	33,804	*(498,767)*	56,124
1988	*(349,334)*	*(193,565)*	34,053	*(576,952)*	55,710
1989	425,055	223,291	32,215	680,561	83,601
1990 – Aug.	445,807	243,301	30,032	719,140	117,732
Sept.	442,597	244,939	29,370	716,906	123,817
Oct.	455,481	248,935	29,106	733,522	125,846
Nov.	466,202	252,436	28,673	747,311	123,251
Dec.	493,256	259,394	28,005	780,655	119,567
1991 – Jan.	487,121	260,048	*(27,593)*	*(774,761)*	*(145,150)*
Feb.	485,397	262,445	*(29,825)*	*(777,668)*	*(153,320)*
Mar.	483,859	266,361	*(29,880)*	*(780,101)*	*(157,751)*
Apr.	491,260	268,984	*(29,615)*	*(789,860)*	*(158,496)*
May	498,886	272,871	*(29,371)*	*(801,128)*	*(154,715)*
June	513,431	271,258	*(30,065)*	*(814,754)*	*(147,350)*
July	531,040	275,911	*(29,140)*	*(836,090)*	*(144,644)*
Aug.	519,476	279,152	*(28,844)*	*(827,472)*	*(142,010)*
Sept.	522,251	279,137	*(29,772)*	*(831,160)*	*(138,717)*
Oct.	532,061	282,742	*(29,416)*	*(844,219)*	*(138,483)*
Nov.	537,199	287,839	*(29,915)*	*(854,953)*	*(135,716)*
Dec.	567,182	290,942	*(30,673)*	*(888,796)*	*(128,383)*
1992 – Jan.	566,095	292,433	*(30,620)*	*(889,148)*	*(133,465)*
Feb.	566,016	295,405	*(30,019)*	*(891,440)*	*(135,551)*
Mar.	569,668	298,963	*(29,885)*	*(898,515)*	*(135,604)*
Apr.	574,037	302,769	*(29,702)*	*(906,508)*	*(136,771)*
May	570,541	306,613	*(29,405)*	*(906,559)*	*(137,851)*
June	590,203	(303,987)	*(29,043)*	*(923,233)*	*(135,901)*
July	600,234	(308,314)	*(28,223)*	*(936,772)*	*(137,399)*
Aug.	587,867	*(309,604)*	*(28,072)*	*(925,542)*	*(139,299)*
Sept.	*(600,790)*	*(311,832)*	*(28,072)*	*(940,693)*	....

Table a42

d i t

in billions of lire)

	Finance to the state sector			Credit	
Total finance	Domestic finance	Foreign finance	Total	Total domestic	Total
(424,324)	516,195	16,285	532,480	*(882,878)*	*(956,804)*
(463,610)	639,234	18,205	657,438	*(1,047,480)*	*(1,121,049)*
(504,793)	750,681	17,379	768,060	*(1,203,230)*	*(1,272,853)*
(554,891)	861,899	23,322	885,221	*(1,360,665)*	*(1,440,112)*
(632,662)	984,049	28,586	1,012,635	*(1,561,001)*	*(1,645,297)*
764,162	1,111,315	34,979	1,146,294	1,791,876	1,910,457
836,872	1,167,375	46,012	1,213,387	1,886,515	2,050,259
840,723	1,186,675	46,374	1,233,049	1,903,581	2,073,772
859,368	1,210,287	47,404	1,257,691	1,943,809	2,117,059
870,561	1,228,565	48,196	1,276,762	1,975,876	2,147,323
900,222	1,247,159	48,656	1,295,815	2,027,814	2,196,037
(919,911)	1,252,558	48,689	1,301,247	*(2,027,320)*	*(2,221,158)*
(930,987)	1,259,011	51,381	1,310,393	*(2,036,679)*	*(2,241,380)*
(937,851)	1,275,279	57,166	1,332,445	*(2,055,379)*	*(2,270,296)*
(948,356)	1,292,228	57,230	1,349,457	*(2,082,088)*	*(2,297,813)*
(955,843)	1,309,225	56,600	1,365,825	*(2,110,353)*	*(2,321,668)*
(962,105)	1,301,475	57,776	1,359,251	*(2,116,229)*	*(2,321,356)*
(980,735)	1,313,871	56,792	1,370,663	*(2,149,961)*	*(2,351,398)*
(969,483)	1,326,284	56,904	1,383,189	*(2,153,757)*	*(2,352,671)*
(969,877)	1,349,930	55,497	1,405,428	*(2,181,090)*	*(2,375,305)*
(982,702)	1,370,429	55,827	1,426,256	*(2,214,648)*	*(2,408,958)*
(990,669)	1,384,885	55,566	1,440,450	*(2,239,837)*	*(2,431,120)*
(1,017,179)	1,399,081	54,698	1,453,779	*(2,287,877)*	*(2,470,959)*
(1,022,613)	(1,405,156)	55,576	(1,460,732)	*(2,294,305)*	*(2,483,346)*
(1,026,991)	(1,415,667)	54,561	(1,470,228)	*(2,307,107)*	*(2,497,219)*
(1,034,120)	(1,442,356)	55,098	(1,497,454)	*(2,340,871)*	*(2,531,574)*
(1,043,280)	(1,465,885)	54,596	(1,520,481)	*(2,372,393)*	*(2,563,761)*
(1,044,409)	(1,485,072)	53,640	(1,538,712)	*(2,391,630)*	*(2,583,121)*
(1,059,134)	(1,476,032)	53,016	(1,529,048)	*(2,399,265)*	*(2,588,182)*
(1,074,171)	(1,490,729)	52,387	(1,543,117)	*(2,427,501)*	*(2,617,288)*
(1,064,841)	(1,493,382)	51,972	(1,545,354)	*(2,418,924)*	*(2,610,196)*
....	*(1,515,682)*	58,330	*(1,574,012)*	*(2,456,375)*	....

Table a43

M2 and its counterparts

(stocks in billions of lire)

	M2	COUNTERPARTS				
		Official reserves	Banks' net foreign position	Credit to the non-state sector	Credit to the state sector	Other
1986	45,291	3,489	–6,454	*(29,968)*	*(20,197)*	*(–1,909)*
1987	42,721	6,775	–5,573	*(26,696)*	*(15,845)*	*(–1,019)*
1988	46,271	10,906	–10,224	*(51,725)*	*(–341)*	*(–5,793)*
1989	74,545	15,386	–5,529	*(78,647)*	*(4,073)*	*(–18,031)*
1990	64,068	15,156	–5,400	73,370	3,618	–22,678
1991	75,789	(–8,571)	(–26,167)	78,536	31,839	(152)
1990 – July	2,240	1,940	271	15,427	–3,258	–12,140
Aug.	–7,448	657	2,120	–10,967	6,146	–5,404
Sept.	16,955	–454	4,294	–3,577	16,447	246
Oct.	8,778	–2,326	–2,355	13,612	10,534	–10,687
Nov.	288	–4,975	–1,914	11,044	4,125	–7,992
Dec.	69,319	–1,050	–875	26,464	18,573	26,207
1991 – Jan.	–38,765	(–794)	(999)	–5,782	–26,634	(–6,553)
Feb.	–5,883	(2,392)	(2,434)	–1,482	–10,772	(1,546)
Mar.	5,642	(6,180)	(–657)	–2,913	2,537	(494)
Apr.	1,159	(–761)	(865)	7,515	2,026	(–8,487)
May	–6,105	(–1,228)	(–4,983)	8,245	5,528	(–13,668)
June	18,876	(–135)	(–9,771)	13,672	–4,480	(19,591)
July	–3,441	(–969)	(–7,901)	19,226	–378	(–13,419)
Aug.	–7,989	(–906)	(–1,304)	–11,180	4,854	(547)
Sept.	19,007	(339)	(–1,127)	5,096	13,465	(1,234)
Oct.	6,944	(–1,204)	(–3,587)	10,264	11,924	(–10,452)
Nov.	5,395	(–3,757)	(–1,192)	5,443	6,991	(–2,090)
Dec.	80,949	(–7,728)	(57)	30,432	26,778	(31,409)
1992 – Jan.	–57,255	(–566)	(–5,709)	*(–1,230)*	*(–33,626)*	*(–16,123)*
Feb.	–3,704	(719)	(–7,069)	*(–169)*	*(778)*	*(2,037)*
Mar.	12,947	(–845)	(–10,084)	*(4,400)*	*(24,291)*	*(–4,815)*
Apr.	5,199	(–4,554)	(–7,206)	*(5,699)*	*(21,301)*	*(–10,041)*
May	4,439	(–1,054)	(–3,761)	*(–2,898)*	*(6,871)*	*(5,281)*
June	8,051	(–7,781)	(–7,129)	*(20,876)*	*(–3,505)*	*(5,591)*
July	–16,778	(–10,524)	(–6,826)	*(11,464)*	*(–4,161)*	*(–6,732)*
Aug.	(–15,782)	(–4,505)	(–2,663)	*(–11,440)*	*(–3,553)*	*(6,378)*

Notes to the tables

Table a1

Sources: National bulletins, IMF and OECD.

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

From July 1990 onwards the current balance of Germany includes the transactions of the former German Democratic Republic.

Table a2

Sources: National bulletins and OECD.

Table a3

Sources: National bulletins and OECD.

For Italy, from February 1992 onwards the index excludes tobacco products (Law 81/1992). Since then the percentage changes between the indices including and excluding tobacco products have been calculated using Istat's reconciliation coefficient of 1.0009.

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, 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, the United Kingdom and Italy: 3-month interbank rate (for Italy, see the note to Table a31); Canada: end-of-period rate on 3-month Treasury bills.

Table a6

Sources: National bulletins, 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; 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.

US 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 the other 14 leading industrial countries. 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

Source: Based on IMF, Istat and OECD data.

Real effective exchange rates: based on the wholesale prices of manufactures of the 15 leading industrial countries. For the method of calculation, see the articles "New Indices of Real and Effective Exchange Rates" in Banca d'Italia, *Economic Bulletin*, no. 8, February 1989, and "The Bank of Italy's Real Exchange Rate Indicators", in this issue.

Table a11

Source: 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 articles "New Indices of Real and Effective Exchange Rates" in Banca d'Italia, *Economic Bulletin*, no. 8, February 1989, and "The Bank of Italy's Real Exchange Rate Indicators", in this issue.

Table a12

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

Table a14

Source: 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: except for the unemployment rate, the annual figures, 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).

From February 1992 onwards the consumer price indices exclude tobacco products (Law 81/1992). Since then the percentage changes between the indices including and excluding tobacco products have been calculated using Istat reconciliation coefficients (1.0034 for food products and 1.0009 for the total consumer price index, the cost of living index and the *scala mobile* index.

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

The dollar 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 Savings and Loans Fund (excluding that to the Treasury and autonomous government agencies).

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

Table a20

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 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

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.

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: comprise 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 a23

In order to bring the monetary base figures into line with the other statistics the Bank publishes, starting with this issue of the Bulletin exchange rate adjustments are excluded from the calculation of stocks. The figures for flows continue to be shown net of such adjustments. The stock of monetary base corresponding to the "Foreign sector" accordingly coincides with the net external position of BI-UIC, calculated at current exchange rates. To ensure the consistency of the accounts, valuation adjustments are also excluded from the calculation of the stock corresponding to "Other sectors".

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 a24

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, comprises the reserve account, compulsory reserve 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 compulsory reserve ratio.

Repurchase agreements: include those with primary dealers in the screen-based secondary market for government securities.

Purchases: includes finance granted in connection with Treasury bill auctions.

Rounding may cause discrepancies in the totals.

Table a25

Other operations: comprises finance granted to primary dealers on the screen-based secondary market for government securities; operations involving Treasury bills include finance granted in connection with auctions.

Rounding may cause discrepancies in the totals.

Table a26

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 a27

Yields are stated as percentages and amounts in billions of lire. The marginal yield is the minimum tender rate.

Table a28

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 a29

Competitive bid auctions. Yields are stated as percentages and amounts in billions of lire. The marginal yield is the maximum tender rate.

Table a30

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.

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 a31

The annual data refer to the month of December.

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 a32

The annual data refer to the month of December.

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

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

Securities: stated at book value.

Bad debts: includes protested bills.

Capital and reserves: are those defined for supervisory purposes until November 1991; since then they have comprised own funds, loan loss provisions and the subordinated liabilities of domestic and foreign offices.

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 a33

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 a34

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 a35

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 a37

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 a38

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 of Treasury credit certificates and Treasury discount certificates assumes no change in interest rates. That of Treasury credit certificates in ecus is therefore not comparable with the expected returns on lira investments. The expected yield of 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. The expected yield of Treasury option certificates assumes that the securities are not redeemed early.

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
- 27 June 1989 for Treasury option certificates
- 31 December 1984 for investment funds.

Table a39

For the new definition of non-state sector monetary aggregates, see "Revision of the Monetary Aggregates", Banca d'Italia, *Economic Bulletin*, no. 13, October 1991. The definition of M2 corresponds to the "harmonized" definition of M3 within the EC. Rounding may cause discrepancies in totals.

Bank current accounts: comprises demand deposits in lire and foreign currency.

Other items: includes the banker's drafts issued by the Bank of Italy and other credit institutions and deposits with the Treasury.

Bank savings deposits: comprises savings and time deposits in lire and foreign currency.

Extended M2: includes the deposits of Italian banks with the branches of Italian banks abroad.

The average figures are calculated as the monthly averages of daily data, except for Post Office deposits and other minor items, which are calculated as two-term moving averages of end-of-month data.

Table a40

For the new definition of non-state sector liquid assets, see "Revision of the Monetary Aggregates", Banca d'Italia, *Economic Bulletin*, no. 13, October 1991. The definition of liquid assets corresponds to the "harmonized" definition of M4 within the EC. Rounding may cause discrepancies in totals.

The composition of the securities portfolio held by non-residents, which is needed to determine the securities portfolio of the non-state sector, is partially estimated.

Securities acquired under repos: since January 1990 includes foreign currency securities issued by residents.

Treasury bills in lire and ecus: stated at face value.

Table a41

The table refers to the financial assets of the non-state sector, net of shares. The differences with respect to the figures published in earlier issues of the Bulletin are due to the change in the definition of money and refinements in the methods of calculation. Rounding may cause discrepancies in totals.

Stocks are calculated at face value, except for the units of investment funds, which are shown at market prices.

The composition of the securities portfolio held by non-residents, which is needed to determine the securities portfolio of the non-state sector, is partly estimated. In particular, the data on bonds may have to be revised.

Government securities: comprises Treasury credit certificates, bonds, certificates in ecus, discount certificates, ordinary certificates, option certificates, index-linked certificates, as well as certificates issued by social security institutions and the Deposits and Loans Fund, 5% annuities and school building loans.

Other bonds: includes bonds issued by public and private sector enterprises, special credit institutions and local authorities.

Other financial assets: the current accounts of stockpiling agencies with special credit institutions; the claims on special credit institutions of social security institutions, insurance companies, local authorities and individuals; current accounts and agricultural consortia with special credit institutions; enterprises' compulsory deposits and atypical securities.

Total financial assets: includes the deposits of the non-state sector with the foreign branches of Italian banks and "loans abroad" of the non-state sector (including bonds until 1990).

Table a42

The differences with respect to the figures published in earlier issues of the Bulletin are due to refinements in the methods of calculation. Rounding may cause discrepancies in totals.

Loans to the non-state sector: includes loans in foreign currency.

Foreign loans: comprises foreign loans and bonds issued by the non-state sector held abroad. The data on bonds are partly estimated and may have to be revised.

Loans to the state sector: comprises the face value of the debt of the state sector, net of the bonds issued by the non-state sector held by the Savings and Loans Fund.

Table a43

The table refers to end-of-period M2. For the new definition of non-state sector monetary aggregates, see "Revision of the Monetary Aggregates", Banca d'Italia, *Economic Bulletin*, no. 13, October 1991. Rounding may cause discrepancies in totals.

Loans to the non-state sector: comprises the financing provided by banks to the non-state sector.

Loans to the state sector: comprises the financing provided by banks to the state sector.

Other items: comprises the financing provided to special credit institutions by the Bank of Italy and banks, the "Other sectors" of the monetary base and residual items of bank balance sheets.

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

— *Italian system of wage indexation. The mechanism, reformed in 1986, lapsed on 31 December 1991. The agreement on labour costs concluded by employers, unions and Government on 31 July 1992 recognized the definitive termination of the mechanism and provided for a wage increase of 20,000 lire per month to be paid to all employees in 1993 and subsequently incorporated into base pay.*

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
ISPE	—	*Istituto di studi per la programmazione economica* Research Institute for Economic Planning
Istat	—	*Istituto centrale di statistica* Central Institute for Statistics
SACE	—	*Sezione per l'assicurazione dei crediti all'esportazione* Insurance Department for Export Credits
UIC	—	*Ufficio italiano dei cambi* Italian Foreign Exchange Office

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MANAGEMENT OF THE BANK OF ITALY

at 31 October 1992

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