BANCA D'ITALIA

Economic Bulletin

Number 16 February 1993

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Economic Developments and Policies

The international economy

Instability in the foreign exchange markets dominated the international scene in the second half of 1992. By heightening uncertainty and impeding a reduction in interest rates, it had adverse repercussions on the real economy. The perception that economic conditions in Europe and Japan were deteriorating had already led to the repeated downward revision of growth forecasts in the first half of the year and to a steady decline in the confidence indicators. The onset of recession in Germany signaled the end of the impact effects of unification, which in the two preceding years had insulated Europe from the slowdown in world economic activity following the long period of growth that had lasted since 1983. With confidence at a low ebb, the persistence of high real interest rates and severe strains in the foreign exchange and financial markets accentuated the contraction in demand towards the end of the year. The cyclical downturn had repercussions on the labour market; the average unemployment rate for the European countries rose to its highest level since 1987. In Japan domestic demand was depressed by the fall in property and share prices, the economic effects of which were amplified by the slowdown in bank lending. In the United States, by contrast, economic activity quickened from the third quarter onwards, assisted by the action the Federal Reserve has been undertaking for some time to reduce the cost of money, by the improved financial condition of the private sector and by expectations that the new Administration would pursue a more vigorous economic policy. Progress in the creation of jobs remains modest, however. The fall in the prices of raw materials and the weakness of demand helped curb inflation, which in many countries fell to the lowest level for the past six years.

Despite the deteriorating economic climate, monetary conditions remained unchanged in Japan from August 1992 until the beginning of February, when the discount rate was reduced. In Germany, notwithstanding the pronounced fall in economic activity, concern at the excessive growth in the money supply, the acceleration in inflation and the budget deficit led the central bank to keep monetary conditions unchanged after the slight easing in mid-September; it was not until 4 February that the Bundesbank reduced its official rates, partly in the light of the satisfactory outcome of wage negotiations in the public sector. In the European countries belonging to the Exchange Rate Mechanism (except those in the Deutschemark zone) strains in the foreign exchange markets caused a widening of differentials in relation to German interest rates and thus limited the scope for adjustments in monetary policy.

Public sector deficits increased in all of the industrial countries as a result of the operation of built-in stabilizers, reinforced in some cases by expansionary measures to sustain economic activity. In the United States the new Administration recently unveiled a package of measures designed to stimulate the economy in the short term and reduce the deficit in the medium term; in Japan the budget surplus decreased considerably, despite the large surplus of the social security funds.

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

In the United States GDP increased at an annual rate of 3 per cent in the third quarter (Table 1) owing to the recovery in domestic demand, especially private consumption. This appears to indicate that the adjustment in the financial situation of households is drawing to a close.

Table 1

Gross product and domestic demand in the leading industrial countries

(constant prices; annualized percentage changes on preceding period)

	1991	1992 (1)	1992 H1	1992 H2 (1)
United States				
GDP	–1.2	2.1	2.0	3.0
Domestic demand	–1.8	2.5	2.3	3.9
Canada				
GNP	–1.7	1.3	0.6	2.4
Domestic demand	–1.1	0.6	–0.8	1.3
Japan				
GNP	4.1	1.5	2.6	–1.2
Domestic demand	2.7	1.1	1.6	–0.2
EC				
GNP	1.1	1.1	1.5	–0.1
Domestic demand	1.0	1.1	2.1	–0.7
of which:				
Germany (2)				
GNP	3.6	0.3	3.2	–4.0
Domestic demand	3.1	1.0	5.7	–4.0
France				
GDP	1.2	1.9	2.1	0.7
Domestic demand	1.0	1.0	0.7	1.0
Italy				
GDP	1.4	1.1	2.0	–1.0
Domestic demand	2.3	1.3	1.9	–1.8
United Kingdom				
GDP	–2.2	–0.9	–1.7	0.2
Domestic demand	–3.2	..	0.5	–0.4

Sources: EC, OECD, Istat and national bulletins.

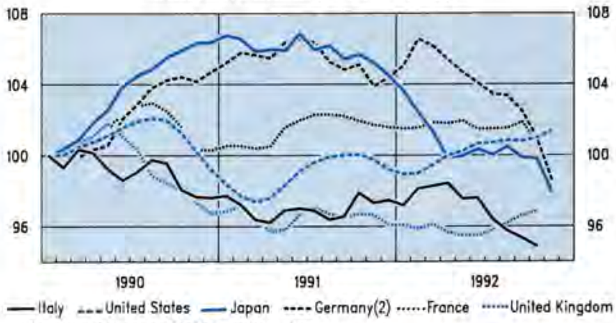
(1) For the United States and Germany, provisional data; for the other countries, estimates based on OECD forecasts, *Economic Outlook* for Canada and the EC, *Annual Economic Report for 1993* for the remaining countries. – (2) Figures refer to western Länder only.

Industrial output increased in December for the third consecutive month (Figure 1). The indicators of business confidence improved markedly in January, signaling the spread of expectations that the recovery will strengthen (Figure 2).

Figure 1

Industrial production (1)

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



Sources: Based on OECD and Istat data.

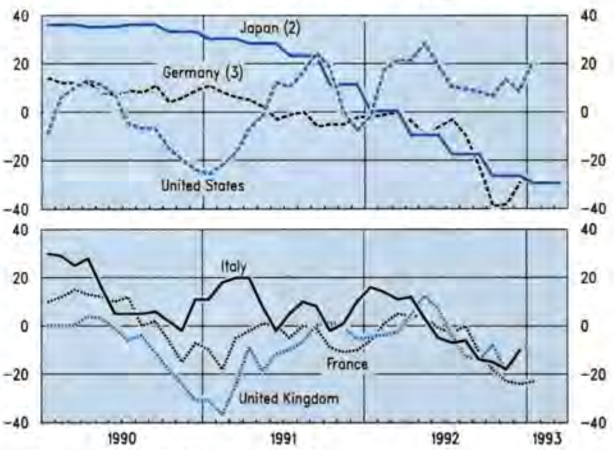
(1) Centred 3-month moving averages. – (2) Western Länder.

Unemployment came down from the peak of 7.7 per cent recorded in June to 7.1 per cent in January (Figure 3); the smallness of the growth in employment nevertheless continues to give cause for concern. Consumer price inflation slowed down to 2.9 per cent in December (Figure 4); over the year it averaged 3 per cent, the lowest rate recorded since 1986.

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) Quarterly data. – (3) Western Länder.

In Japan and Germany, however, the second half of the year saw a pronounced deterioration in the economic climate, exacerbating the slowdown that had begun in the spring of 1991. The downturn was partly due to the effects of restrictive monetary policies, which in Japan were aimed at ending the wave of speculative transactions that had inflated property and share prices since the mid-eighties and in Germany at containing the inflationary potential of the deterioration in the public finances and of the wage pressures triggered by unification.

Figure 3

Unemployment rate

(seasonally adjusted monthly data; percentages)

Sources: Istat, OECD and national bulletins.
(1) Quarterly data. – (2) Western Länder.

In Japan, the decline in economic activity (by 1.6 per cent at an annual rate in the third quarter) reflects the further contraction in wealth caused by the continuing fall in property and share prices. The sharp fall in investment is related partly to the gloomier outlook for demand, but also to the reduction in credit owing to the serious capital problems facing the banks. The indicators showed a further deterioration in the fourth quarter. Industrial output continued to fall in December; over the year as a whole the contraction averaged 5.4 per cent. Surveys conducted at the beginning of 1993 indicated a further decline in business confidence. The slowdown in activity helped reduce inflation, which averaged 1.7 per cent in 1992; the producer prices of manufactures were almost 1 per cent lower than in 1991.

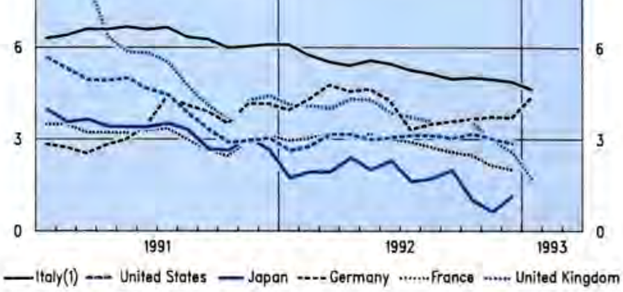
In the western part of Germany the weakening of all the components of domestic demand, but especially investment, contributed to a fall in GNP at an annual rate of 4 per cent in the second half of the year. Industrial output declined by 1.9 per cent during the year as a whole, and the short-term outlook is increasingly bleak. Unemployment rose to 6.5 per cent in December, an increase of 1 percentage point since the beginning of the year. The business confidence indicator deteriorated dramatically from September onwards; in the last few months of the year it fell below the lowest level recorded during the 1981-82 recession. In the last quarter of the year the rise in consumer prices in relation to the same period of 1991 remained at 3.7 per cent; the annual average increase worked out at 4 per cent, half a point higher than in the preceding year. Inflation accelerated sharply to 4.4 per cent in January 1993, mainly as a result of increases in indirect taxes; excluding this item, the consumer price index rose by 3.9 per cent.

The economy of the eastern *Länder* continues to be dominated by a depressed level of demand and differences in the performance of the various sectors, which reflect, at least in part, the imbalance between wages and productivity. The expansion of activity in the construction sector (4.6 per cent in the third quarter compared with the same period of 1991) contrasts starkly with the decline in manufacturing output (2.7 per cent), and especially with the fall in the production of capital goods (11.4 per cent). The difficulties of unification are proving greater than had been foreseen three years ago and are delaying the prospects of recovery.

Figure 4

Consumer prices

(percentage changes on corresponding month of previous year)



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

It is estimated that output in France increased at an annual rate of just under 1 per cent in the second half of the year, the fastest rate of growth among the leading countries of the European Community. Industrial output remained broadly unchanged over the year as a whole. In December the unemployment rate rose to 10.5 per cent, half a point above the end-1991 figure, and the business confidence indicator sank to a level equal to the lowest recorded during the Gulf crisis. Inflation slowed down from 3.1 per cent in the first half to 2.0 per cent in December, the smallest increase since August 1986 and the second lowest in the Community after Denmark.

In the United Kingdom, GDP probably increased slightly in the second half of 1992 owing to a recovery in private consumption. Despite the large depreciation of sterling and the pronounced easing of monetary conditions, the high level of household debt continues to weigh heavily on the economy. House prices fell more slowly in December; nationally, however, they were 8.4 per cent lower than a year earlier. In the same month unemployment rose to 10.5 per cent, the highest level since 1987 and almost 1 percentage point above the June figure. In January the consumer price index was 1.7 per cent higher over the year, the smallest rise since November 1967 and almost 2 points below the rate recorded in September. Excluding mortgage interest payments, inflation came down to 3.2 per cent.

The slowdown in prices in the industrial countries was assisted by the fall in raw materials prices. Oil prices were extremely weak from mid-October onwards. The average for the three main grades of crude came down to $17.30 a barrel in January, a fall of almost 14 per cent since October. The decline was due partly to the weakness of international economic activity and the increase in OPEC oil production by 5 per cent compared with the fourth quarter of 1991. On average for the year, the price of crude was slightly lower than in 1991. In the final quarter the index of the dollar prices of non-energy raw materials was also down by 2 per cent compared with the same period of the preceding year.

The widening of cyclical divergences between the three leading industrial countries accentuated the current account imbalances during 1992 (Table a1).

The United States' current account deficit probably amounted to 1 per cent of GDP in 1992 and the trade deficit is put at 1.7 per cent (compared with 1.4 per cent in 1991), reflecting the fact that imports increased by 10.9 per cent in real terms whereas exports rose by 6.5 per cent. The deficit with Japan rose to almost $50 billion and the surplus vis-à-vis the EC gave way to a deficit in the last two months of the year. The US current account deficit is now structural; it has generated net foreign debt estimated at about $550 billion, net of official gold reserves.

Japan's current account surplus rose to 3.1 per cent of GNP, 1 point more than in 1991. The increase reflected primarily the widening of the trade surplus to 2.9 per cent of GNP; trade with newly industrialized Asian countries, the United States and the EC improved markedly. The net external creditor position touched $500 billion, excluding gold reserves.

In Germany, the current account deficit amounted to 1.4 per cent of GNP, compared with 1.2 per cent in 1991. The deficit on invisibles increased owing to the substantial worsening of the deficit on foreign travel and the decrease in the surplus on investment income. The trade surplus rose from 0.8 per cent of GNP in 1991 to 1.2 per cent. Exports decreased by 2.9 per cent in value in the second half owing to the weakness of activity worldwide. The fall in import prices and the contraction in domestic demand helped curb imports, particularly in the second half of the year, when they decreased by 4.4 per cent in value terms. Germany's external creditor position deteriorated, but still amounted to $300 billion, net of gold reserves.

Exchange rate uncertainty and the worsening of trade imbalances fueled tensions over trade. In November the EC and the United States reached agreement on trade in agricultural goods, one of the sectors that had blocked the Uruguay Round of negotiations since December 1990. The agreement resolves the dispute about the incompatibility of Community programmes to support the production of oilseeds with the rules of the GATT and defines a bilateral understanding on the agricultural chapter of the Uruguay Round. France's refusal to endorse the agreement on the grounds of its alleged incompatibility with the rules of the Common Agricultural Policy, followed by similar decisions by other Community countries, including Italy, poses a serious obstacle to the conclusion of the GATT negotiations. In December talks on the removal of barriers to world trade were resumed within the framework of the Uruguay Round. Differences remain regarding the scale and product distribution of reductions in tariffs on imports of industrial goods; in particular, the Community favours proportionately larger cuts in sectors subject to the highest tariffs, whereas the United States prefers the reciprocal elimination of duty in sectors in which liberalization is already well advanced and opposes deep reductions in tariffs in more heavily protected sectors.

Agreement is unlikely to be reached by 2 March 1993, the closing date for fast-track approval by the US Congress. There is a danger that failure to agree will lead to an increase in protectionism, as illustrated by the recent decisions of the US Administration to impose countervailing duties on steel imports and to prohibit Community manufacturers from tendering for public sector contracts.

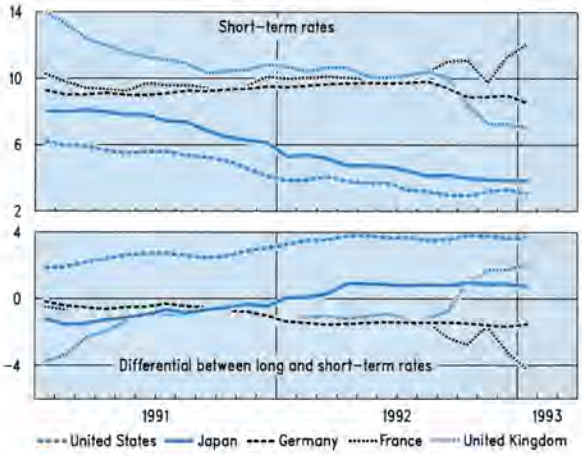
Economic policies

Since October 1992 the monetary stance has remained essentially unchanged in the three leading industrial countries, despite signs of a further deterioration in economic conditions in Japan and Germany and a recovery in activity in the United States. Real long-term interest rates remained high, at between 3 and 3.5 per cent in Japan, Germany and the United States, and close to 6 per cent in France and the United Kingdom. The budgetary position worsened in all of the countries, reflecting the operation of automatic stabilizers and, particularly in the United Kingdom and Japan, the impact of measures to stimulate the economy.

In the United States market interest rates tended to increase during November and December, but then gradually fell to 3 and 6.5 per cent for short and long-term rates respectively in mid-February; the decline in long-term rates reflected expectations of moderate price movements, despite the recovery of activity (Figure 5). The growth of M2 and M3 in 1992 was slightly below the lower limit of the respective target ranges (2.5-6.5 and 1-5 per cent). The slowdown reflected a shifting of funds towards long-term financial assets in response to the positive slope of the yield curve and the disposal of short-term assets by households and firms in order to reduce their debt. The second half of the year saw a slight acceleration in bank lending generated by the economic recovery. Banks have kept prime rate unchanged at 6 per cent since July, widening the differential between lending and deposit rates in order to consolidate the progress made in strengthening their capital bases.

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.

In Japan short-term market rates continued to decline in the last quarter of 1992 and the first two months of 1993, falling to 3.3 per cent. The decrease in long-term rates was slightly more pronounced, presumably as a result of the gloomier prospects for growth. In early February the monetary authorities reduced the discount rate by 0.75 points to 2.5 per cent, the lowest level during the last four years. The M2 monetary aggregate (which includes certificates of deposit) was 0.6 per cent lower in the last quarter of 1992 than in the same period of the previous year. This was due to progressive portfolio adjustment in favour of Post Office deposits and, above all, to a slowdown in bank lending to the private sector.

In Germany the decline in short-term rates initiated by the reduction in official rates in mid-September continued until the end of October, when they stood about 1 percentage point lower, at 8.9 per cent. In the same period the rates on government bonds fell by a similar amount, returning to their October 1989 level of 7.3 per cent. This development was due partly to massive purchases of securities by non-residents, who took up 80 per cent of the bonds issued in these two months; the total includes purchases by dealers in Luxembourg, which are partly attributable to the reinvestment of funds received from German residents. Interest rates remained more or less stable during the last two months of 1992 but then declined, so that by mid-February they stood at 8.3 per cent for short-term funds and 6.7 per cent for long-term maturities. On 4 February the lombard rate was lowered by 0.5 percentage points to 9 per cent and the discount rate by 0.25 points to 8 per cent. This decision coincided with renewal of the labour contract for public sector employees, which set wage increases at 3 per cent for 1993. The compulsory reserve ratios for some bank liabilities were also reduced for the first time since 1987.

Between August and October the growth in the M3 reference aggregate accelerated sharply on account of the expansion in lending to the private sector and the increase in sight deposits in response to the wide interest rate differential in favour of short-term funds. The growth in the aggregate was also sustained by the massive inflows of foreign exchange generated by exchange market intervention, which were only partially sterilized. As the latter effects abated over the last two months of 1992, there was a gradual slowdown in the growth of M3, which in December stood at 8.7 per cent, down from the peak of 10.3 per cent in October. The average for the last quarter of 1992 – 9.4 per cent compared with the corresponding period of 1991 – was nonetheless well above the upper limit of the target range of 3.5-5.5 per cent owing to the continuing strong demand for credit to finance investment in the eastern *Länder*. In the same period bank lending rates remained unchanged, at about 12 per cent.

Monetary conditions in the United Kingdom eased after the pound had been suspended from the Exchange Rate Mechanism. This met the need to sustain economic activity, which has been in decline for two years, and above all to alleviate households' extremely heavy debt burden in the face of the protracted fall in property values. The decline in interest rates was possible in view of the moderate ratio of public debt to GDP. The base rate was progressively reduced from the peak of 12 per cent reached on 16 September to 7 per cent at the end of November. Short-term market rates declined to 7 per cent in the first half of November, compared with 10.6 per cent in mid-September. Short-term rates began to fall again in late December, reflecting expectations of further reductions in official rates. On 26 January base rate was cut to 6 per cent, its lowest level for fifteen years. Medium-term rates fell to levels similar to those in Germany, but rates on longer-dated paper (20 years) remained high, at around 9 per cent.

Since the second half of November new tensions within the EMS have led to a renewed tightening of monetary conditions in the ERM countries, whose currencies have again come under intense pressure.

In 1992 the budget deficits of the leading industrial countries widened by an average of more than 1 percentage point of GDP by comparison with 1991, to reach 3.7 per cent.

In the United States the 1992 fiscal year, which ended in September, closed with a federal budget deficit of $290 billion, equal to 5 per cent of GDP, compared with $269 billion in 1991. Last year's deficit was considerably less than forecast, thanks mostly to the lower cost of liquidating the savings and loan associations in view of an unexpected improvement in their profitability. Net of this item, the deficit increased sharply, owing mainly to cyclical factors. The outgoing Administration forecast a deficit of $327 billion for 1993, equal to 5.3 per cent of GDP. The worrying medium-term prospects prompted the new Administration to present a package of measures designed to leave the deficit virtually unchanged for 1993 but to reduce it subsequently.

In Japan the public sector surplus for the financial year ending in March of this year is expected to amount to 1.3 per cent of GNP, compared with 2.4 per cent last year. This reduction can be attributed partly to the effects of automatic stabilizers and partly to increases in public spending – particularly investment, equal to 2.3 per cent of GNP – contained in the programme approved in December. The surplus of the social security system is expected to remain high and stable, at 3.5 per cent of GNP.

In Germany the public sector deficit, including the balances of the regional administrations, exceeded DM 110 billion in 1992, equal to 4 per cent of GNP. The implementation of measures to curb expenditure made it possible to offset the effects of the cyclical slowdown and of the massive transfers to the eastern regions, which amounted to DM 170 billion, more than 6 per cent of GNP. The borrowing requirement of the enlarged public sector, which includes the deficits of the Treuhandanstalt, the Post Office and the State Railways, rose to DM 165 billion, equal to 6 per cent of GNP, compared with DM 135 billion in 1991. In order to reduce the public sector deficit in the next few years, the federal Government recently submitted a programme of tax increases and spending cuts to be spaced over the period 1993-95. In particular, the plan envisages raising certain indirect taxes and reintroducing the solidarity tax on individual and corporate incomes in 1995. The action on the expenditure side includes measures to curb public sector wage increases, military spending and subsidies. On the other hand, no proposals have been made for overhauling the pensions system, despite serious concern at the growth in expenditure associated with the aging of the population.

In France the central Government budget showed a deficit for 1992 of FF 200 billion, or 3 per cent of GDP, far in excess of the FF 90 billion forecast in the Finance Law; the deterioration was due to cyclical factors, particularly the fall in VAT receipts, which in turn was partly the result of the decision by many firms to defer payment.

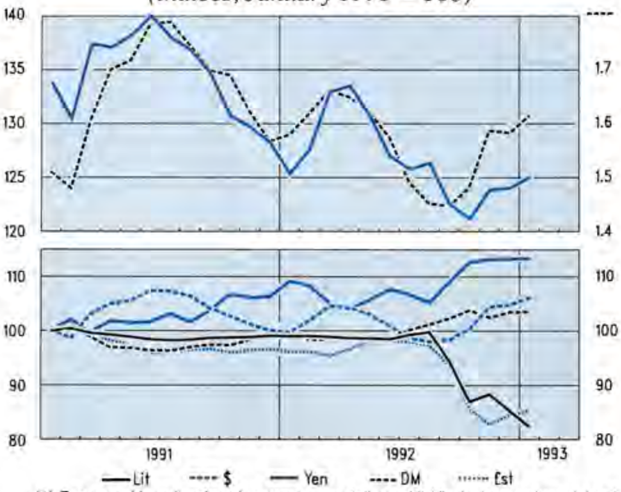
In the United Kingdom the budget for the 1992-93 financial year, which ends on 31 March, is expected to show a deficit of over 6 per cent of GDP, almost 4 points more than the previous year. This is due partly to the severe recession and partly to discretionary measures to stimulate activity.

Exchange rates

Between October 1992 and January 1993 the dollar recovered almost all of the ground it had lost between the spring and the end of the summer; at the end of January it stood at about 124 yen and DM 1.58, respectively 4 and 11 per cent higher than at the end of September (Figure 6). This reflected the improved prospects for growth in the United States and expectations of a narrowing of short-term interest rate differentials vis-à-vis assets in yen and Deutschemarks; between the beginning of October and the end of January the differentials declined by 0.3 and 0.6 percentage points respectively.

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.

In nominal effective terms, the dollar has appreciated by 6 per cent since last October, while the yen and the Deutschemark have remained broadly stable, although they are 5 per cent higher than in June 1992.

Severe strains persisted within the EMS after the September crisis and spread to the currencies of countries that had made significant progress in curbing inflation and reducing budget deficits. Speculative pressure was fueled by the markets' growing awareness that the monetary authorities' defence of exchange rates and their decisions regarding currency realignment in September had been poorly coordinated.

The rigidity of interest rates necessitated by Germany's failure to relax monetary conditions until early February accentuated the conflict experienced by many countries between domestic targets and the objective of exchange rate stability.

A period of comparative calm between mid-October and mid-November was followed by renewed tensions, generated partly by the Swedish authorities' decision to abandon the central rate against the ecu on 19 November after mounting a strenuous defence against heavy speculative attacks; the Norwegian authorities followed suit on 10 December. Speculative pressure focused particularly on the peseta, the escudo and, among the narrow band currencies, the Irish punt and Danish krone. The two latter currencies fell to their lower limit against the Belgian franc and the Dutch guilder on 20 November, obliging the central banks concerned to intervene at the margin, albeit on a small scale. At the same time, short-term interest rates rose sharply, by about 6 points in Denmark and 15 in Ireland. The Spanish authorities resisted the depreciation of the peseta, mainly by means of substantial intramarginal intervention. When this failed to ease the pressure, the Spanish and Portuguese authorities requested a parity adjustment. On 22 November the central rates of both currencies were devalued by 6 per cent, which in the case of the peseta was in addition to the 5 per cent devaluation carried out in September (Figure 7).

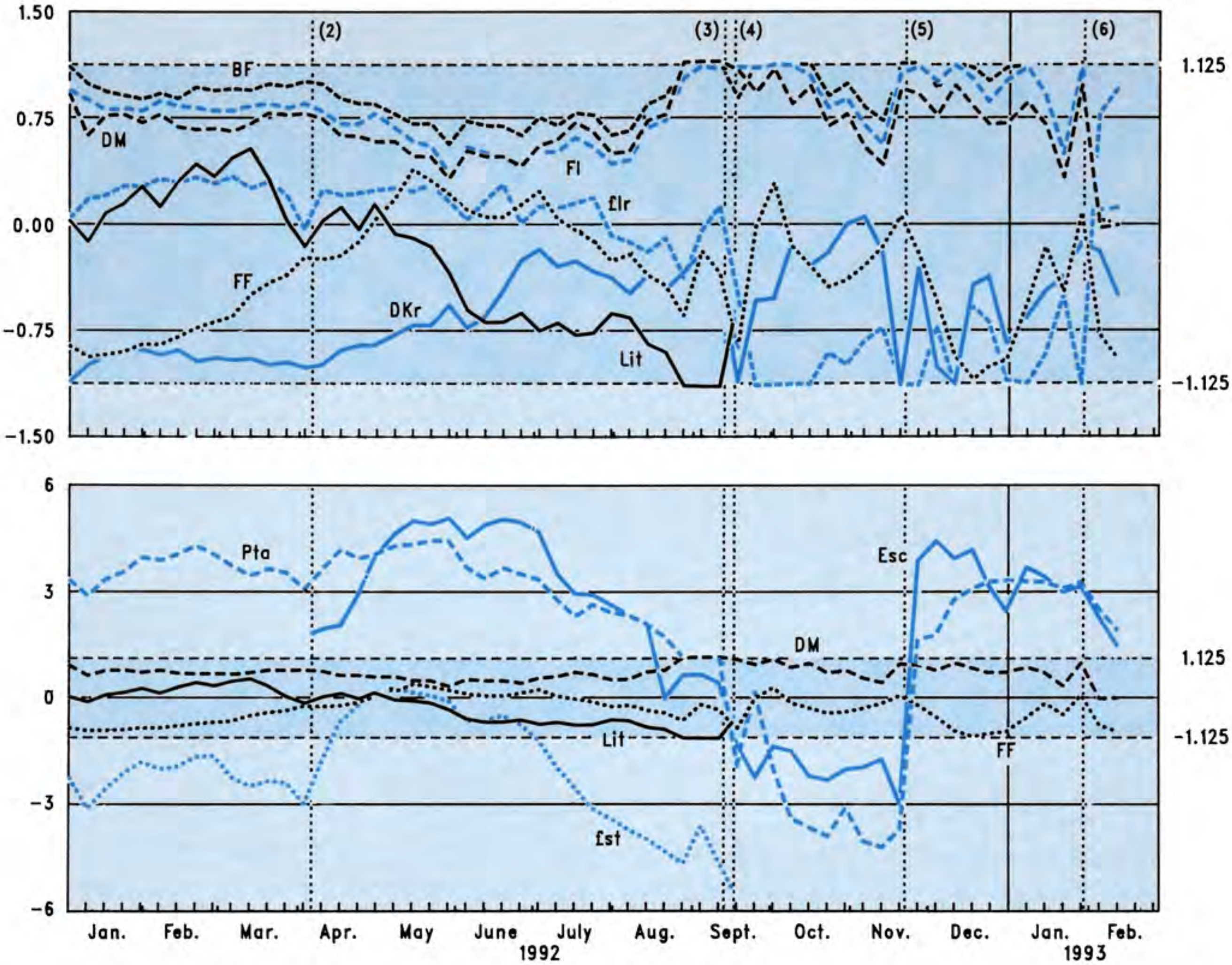
Following the realignment, the peseta and the escudo rose to the upper part of the fluctuation band owing to inflows of capital generated by the continued high level of interest rates in the two countries; in Spain the foreign exchange restrictions introduced in September were abolished. In contrast, speculation against the Irish punt and the Danish krone continued until mid-December and spread to the French franc. The Irish and Danish authorities responded with a further large increase in three-month interbank rates, which reached 40 and 21 per cent respectively. Both central banks also made small interventions at the margin. The Bank of France allowed the franc to depreciate by about 1 per cent against the Deutschemark between the end of November and mid-December, but prevented it from reaching the lower limit of the fluctuation band; it also made substantial intramarginal interventions – partly financed by a credit facility in Deutschemarks from the Bundesbank – and encouraged interbank rates to rise swiftly to above 11 per cent. When speculative pressure intensified further in the first week of January, the French authorities raised the rate on overnight repurchase agreements by two points; this was announced simultaneously with a joint communiqué from the French and German authorities emphasizing the consistency of the central exchange rate between their currencies with the fundamentals of the two economies and reaffirming their common commitment to defend the parity.

In the last week of January the Irish punt again came under pressure. The Bank of Ireland allowed it to depreciate almost to the lower limit of the fluctuation band and induced a rapid increase in market interest rates. This was not sufficient to prevent a devaluation of the punt, whose central rate was adjusted by 10 per cent on 30 January.

Between the beginning of October and early November the lira recovered some of the depreciation it had suffered since the suspension of interventions at the margin. However, it weakened again from the second half of November onwards as tensions reappeared within the EMS; in mid-February it was about 18 per cent lower vis-à-vis the Deutschemark than it had been before the September realignment. Sterling recovered slightly between December and the first week of the new year but then lost ground, so that by mid-February its rate of exchange against the Deutschemark was about 15 per cent below the level prevailing before the pound's withdrawal from the Exchange Rate Mechanism.

Figure 7

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



(1) End-of-week data. – (2) Entry of the Portuguese escudo into the Exchange Rate Mechanism (6 April 1992). – (3) On 14 September the central rate of the lira was realigned. – (4) On 17 September the central rate of the peseta was realigned, Italy temporarily suspended compulsory intervention and the pound sterling was suspended from the Exchange Rate Mechanism. – (5) On 23 November the central rates of the peseta and the escudo were realigned. – (6) On 1 February the central rate of the Irish punt was realigned.

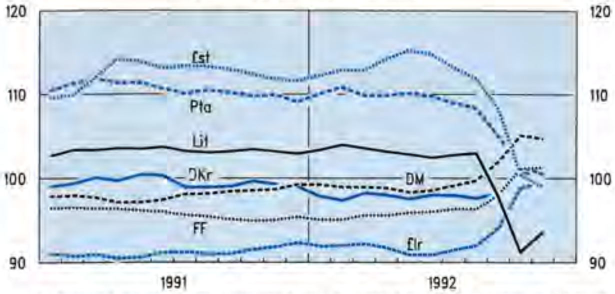
The variations in nominal exchange rates within the EMS over the last five months have led to substantial changes in competitiveness within the Community (Figure 8). At the beginning of February the real effective exchange rates of the Deutschemark and the French franc against other EC currencies, calculated on the basis of partly estimated producer prices of manufactures, were respectively 8.5 and 7.5 per cent higher than in May 1992, while those of the lira and the pound sterling had fallen appreciably, by 14.4 and 13.8 per cent respectively, and the peseta had depreciated by 7.2 per cent. When compared with the average figures for 1987, the real effective intra-EC exchange rates of the Deutschemark, French franc and peseta were higher by around 7, 3 and 2 per cent respectively. The currency with the largest competitive gain was the lira, with an improvement of 12 per cent, followed by the Irish punt with one of

8 per cent; sterling, which had accumulated a loss of competitiveness of 15 per cent by last spring, now shows a gain of about 1 per cent as a result of its substantial depreciation in the intervening period.

Figure 8

Real effective exchange rates among the EMS currencies (1)

(indices, 1987=100)



(1) Average monthly data, calculated with reference to the currencies of Belgium, France, Germany, the United Kingdom, the Netherlands, Italy, Ireland, Denmark and Spain on the basis of the producer prices of manufactures.

The international financial markets

The American share market, which has been recovering since 1990, rose sharply in the last quarter of 1992 as a result of the improved climate of confidence created by the election results and positive economic indicators. Shares also rallied significantly in the United Kingdom under the influence of repeated reductions in interest rates. The markets in France, Germany and Japan remained relatively stable, despite the economic downturn (Figure 9). Between the beginning of 1992 and mid-February the share price indices rose by 6.5 per cent in New York and 16.5 per cent in London, while the Tokyo market showed a loss of 27 per cent.

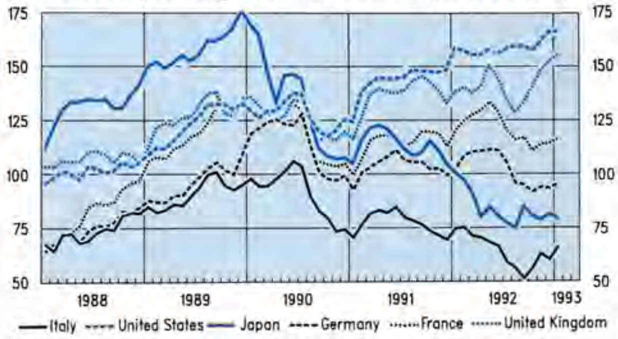
In the third quarter, the last period for which statistics are available, the international interbank market staged a strong recovery, with lending activity increasing by $155 billion, whereas in the first half it had fallen by $140 billion owing to a reduction in operations by Japanese banks; the growth was generated primarily by large foreign exchange flows from certain European countries to Germany, the United States and Japan. In view of the heightened credit risk caused by the weakness of economic activity and the fall in property and share prices, lenders paid particular attention to counterparties' capital adequacy before accepting a creditor position. This led to a concentration of exposures vis-à-vis a small number of large operators of high credit standing.

In the final quarter gross financing via bond issues and syndicated loans came to $118 billion, compared with $104 billion a year earlier; the annual total was $458 billion, against $420 billion in 1991. The growth was almost entirely in the bond sector, where new issues amounting to $85 billion were launched between October and December (Table 2). Those made by the United Kingdom, Sweden and Finland to replace the reserves spent during the currency crisis were particulary large ($13 billion); 45 per cent of these issues were denominated in Deutschemarks. As usual, fixed-interest securities made up the largest component; issues of convertible bonds and bonds with warrants represented less than 10 per cent.

Figure 9

Share prices (1)

(monthly averages; indices, January 1987=100)



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

As to the currencies of issue, the dollar segment was the most active, but there was pronounced growth in DM issues, which overtook yen issues in the third quarter to take second place behind the dollar. Sales of DM-denominated securities also benefited from the relative stability of DM yields after the decline in the second half of September and in October.

In November and December the demand for bonds at issue, most of which were denominated in dollars, was boosted by expectations of an appreciation of the US currency; bond issues by European governments also remained substantial.

Table 2

Gross lending in international capital markets

(billions of dollars)

	1990	1991	1992	1992 (1)
Bonds (2)	229.9	297.6	333.7	85.0
of which: floating rate	*37.1*	*17.1*	*43.6*	*8.9*
Syndicated loans (3)	124.5	115.9	117.9	31.8
Back-up facilities (4)	7.0	6.4	6.7	1.5
Total	**361.4**	**419.9**	**458.3**	**118.3**
percentage breakdown by currency of bonds				
US dollar	33.3	28.5	36.9	37.5
Ecu	8.1	11.1	6.8	0.1
Pound sterling	9.5	9.1	7.6	9.1
Japanese yen	13.5	12.9	11.2	12.4
Deutschemark	8.3	7.1	10.4	16.8
Swiss franc	10.5	7.3	5.8	9.6
French franc	4.3	6.3	7.5	8.4
Other	12.5	17.7	13.8	6.1

Source: OECD.
(1) Last 3 months of the year. – (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.

The ecu market, by contrast, remained flat in the final quarter, having stagnated since June owing to the uncertainty caused by the Danish referendum. Only one ecu-denominated issue was made, and that was from the European Community. In 1991 the ecu's share of the total issue volume had been 11.1 per cent. The spread between the market yield and the theoretical yield calculated on the basis of component currencies widened during the currency crisis in September but narrowed again at the beginning of November. At the end of that month it began to increase again, reflecting the re-appearance of tensions within the EMS and uncertainty about the prospects for Monetary Union.

Activity in the Eurolira market in the fourth quarter was confined to a single issue of 150 billion lire; the sparsity of issues appears to have been due at least in part to the abolition of their exemption from withholding tax at the end of September, which had enabled supranational issuers to offer securities to Italian savers on attractive terms.

In January activity recovered rapidly in all market segments, with numerous issues by European governments, the largest being those by Finland and Italy, and by institutions such as the World Bank and the EIB.

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

In the republics of the former Soviet Union the disintegration of the system of commerce, production and payments caused a further contraction in trade, investment and national income in 1992.

In Russia output was 18 per cent lower than in 1991. The credit restrictions imposed in the early months of the year led to an accumulation of debt between enterprises and with the banking system, which the central bank subsequently financed. The consequent growth in credit and money, due partly to the financing of the substantial public sector deficit, drove inflation up to 2,500 per cent at the end of the year. The value of the rouble fell by 80 per cent against the dollar between July and December. Despite an inflow of foreign loans totaling more than \$10 billion from official sources, the balance of payments recorded a deficit of \$11 billion in the first nine months of the year. Clandestine outflows of capital are estimated at more than \$6 billion by the IMF. Although Russia has accumulated massive payment arrears, it was the only country in the Commonwealth of Independent States (CIS) to service part of its foreign currency debt in 1992, using capital from official sources to do so. It has recently concluded or is in the process of concluding agreements with nine other republics, under which it will take over the assets and liabilities of the former USSR, partly in order to facilitate agreement with creditors on the rescheduling of its own debt in 1993. Progress was made with the Russian privatization programme; a negotiable voucher with a face value of 10,000 roubles, which can be exchanged for shares in the enterprises to be auctioned by the state, has been distributed to every citizen born before September

1992 and about 30,000 small and medium-sized commercial enterprises have been sold to private individuals.

The economic crisis in the three Baltic republics was particularly severe, with output falling by around 30 per cent. At the end of 1992 these three countries obtained a standby credit from the IMF and a European Community loan of ECU 220 million. The other republics also suffered a considerable fall in income. However, those belonging to the rouble zone (all the republics except the Ukraine and the Baltic states) were able to draw on credit lines granted by Russia in order to finance their increased trade deficits with that country.

In Poland, Hungary and Czechoslovakia the fall in output was smaller than in 1991 (1 per cent in Poland and 5 per cent in the other two countries). For the first time in three years there were signs of a recovery in output and a halt to the decline in investment. Inflation continued to slow down; in Czechoslovakia it fell to less than 10 per cent at the end of the year. Trade continued to be geared increasingly towards the OECD area. In the first half of the year the ecu value of Polish and Hungarian exports to these markets grew by 9 per cent and that of Czechoslovak exports by 48 per cent, thanks primarily to the dismantling of quantitative restrictions on trade in manufactures following the implementation of the Association Agreement between these three countries and the EC. However, their low price policy for exports of steel products prompted the EC to levy new anti-dumping duties on them and to authorize Germany, France and Italy to reintroduce quotas for imports of these products from Czechoslovakia.

One factor in the recovery in Poland and Czechoslovakia has been the growth of the private sector. In Poland it now employs around 60 per cent of the labour force, while in Czechoslovakia some 1,500 state enterprises have recently been privatized. In Hungary the Government plans to reduce the state's shareholding in enterprises to less than 50 per cent by the end of this year.

Poland has completed negotiations with the IMF on a new standby loan, the terms of which provide for the public sector deficit to be held below 5 per cent of GDP, but activation of the programme is contingent upon parliamentary approval of the Finance Bill. Hungary, on the other hand, has not reached agreement on the resumption of the lending programme suspended last May. At the end of 1992 the Czech and Slovak Federal Republic split into two independent republics linked by a customs and free trade agreement and a transitional monetary union. However, the latter was dissolved at the beginning of February, when national Czech and Slovak currencies were introduced.

It is still difficult to discern any recovery in output in Bulgaria and Romania. Exports to western markets have increased. In the case of Romania they benefited from the weakness of the currency, but this same factor had repercussions on domestic prices, making it more difficult to control inflation, which accelerated. In this country the privatization programme is at an advanced stage; 80 per cent of land has been distributed to farmers and the sale of about 6,000 large state enterprises is under way.

Despite the subdued economic climate in the industrial countries, activity continued to expand in developing countries, which recorded growth of 6 per cent in GDP in 1992; this was the largest increase for a decade and permitted an increase of more than 3 per cent in real per capita incomes. The expansion was aided by the low level of US interest rates and the fall in oil prices. Growth was particularly rapid in the Middle East (10 per cent) and Asia (6.6 per cent), but remained unchanged in Latin America (2.7 per cent) and was still very small in Africa (barely 2 per cent).

Asia achieved better results than other developing regions in terms of faster growth, lower inflation and better export capability, thus confirming a trend that began to emerge some years ago. The number of countries undergoing rapid growth has increased, to comprise not only the four conventional NIEs (Hong Kong, Taiwan, Singapore and South Korea) but also Indonesia, Thailand and Malaysia, which recorded growth rates of between 6 and 8 per cent. In China output increased by 11 per cent against the background of continued large current account and trade surpluses and a very small volume of foreign debt. Income increased by 44 per cent in the last five years, after per capita income had doubled in only ten years between 1977 and 1987. The increase was even larger in the Special Economic Zones, where the expansion in direct investment and exports led to a growth in income of 250 per cent over the last five years. The SEZs, most of which are situated in coastal areas, include cities such as Shanghai and Canton and cover about 4 per cent of the country's territory. Their legislation is highly favourable to private initiative and foreign investment; even the state enterprises operating there are managed according to market criteria.

All the Asian countries have adopted strategies based to a large extent on economic openness, market forces and private enterprise. In general, they have carried out major structural reforms centred on the liberalization of foreign trade and on sustaining capital accumulation and direct investment by offering tax and regulatory incentives. These policies have stimulated considerable inflows of direct investment, largely from Japan and primarily in sectors producing goods for foreign markets, and have been accompanied by rapid export growth. It is estimated that exports from Malaysia and Thailand increased by about 18 and 15 per cent respectively in 1992; in 1991 exports from Indonesia rose by 14 per cent and those from China by about 18 per cent.

The Italian economy and the balance of payments

During 1992 the Italian economy's cyclical situation deteriorated rapidly: the growth of economic activity, already weak in the first half of the year, came to a halt in the second.

The climate of uncertainty that developed in the late spring and gave way to widespread pessimism following the currency and financial crisis in September damaged business and consumer confidence, accentuating the tendency to defer expenditure. Domestic demand diminished in the second half of the year, with a reduction in both consumer spending and investment. The deterioration in the domestic economic situation prompted firms to focus more on foreign markets. The fact that they were able to do so was due to the widening of profit margins on exports as a result of the slowdown in labour costs and, from September onwards, the recovery of competitiveness permitted by the depreciation of the lira. On a seasonally adjusted basis, exports of goods and services grew by around 4 per cent in volume terms between the second and third quarters. The weakness of domestic demand led to a fall in imports, consolidating the improvement in the merchandise trade balance, which according to preliminary estimates showed a surplus of 3 trillion lire in 1992, compared with a deficit of 900 billion in 1991.

The economic downturn became more acute during the summer, as a contraction in households' consumption compounded the decline in capital expenditure that had begun in the first half of the year. The fall in consumer spending reflected the expectation of slower growth in incomes and higher taxation and, above all, the weakening of confidence in the outlook for employment and fears of illiquidity and capital losses on government securities.

The downturn spread from industry to the services sector. Industrial production fell by 3.4 per cent between the two halves of the year. The labour force survey conducted in the summer showed that employment had declined by more than 2 per cent in industry and was stagnant in the services sector. For the economy as a whole, the number of unemployed who had previously been in work exceeded 460,000 in July, 41,000 more than a year earlier. The survey conducted in October, which does not afford direct comparison with the July survey owing to changes of methodology, appears to confirm the fall in employment. The general deterioration in the labour market – a delayed consequence of the slowdown in production and the surge in unit labour costs in 1990 and 1991 – was reflected in a rise in the unemployment rate to 9.5 per cent in October on the basis of the new methodology.

The inflation rate, as measured by the cost-of-living index, continued to come down in 1992: the average rate was 5.4 per cent, one percentage point lower than in 1991. The abolition of the indexation of wages to prices and the slower rate of increase in unit labour costs helped to relieve inflationary pressures. The price effects of the lira's devaluation were delayed not only by the customary lag with which changes in input prices work through to final prices, but also by the fall in the dollar prices of raw materials and the weakness of domestic demand for consumer goods and services. In terms of consumer prices, the inflation differential in relation to the three EC countries with the lowest inflation narrowed by an average of almost one point. The surveys conducted in the closing months of 1992 revealed signs of growing pressure with regard to wholesale prices: the wholesale price index, the basket for which includes a significant number of imported goods, rose by 2.4 per cent in October and November compared with September.

Domestic demand and output

Households' consumption, which had grown at a sustained pace in the first half of the year, began to decline during the summer, falling by 0.1 per cent between the second and third quarters; the contraction was more pronounced for durable and semi-durable goods (1.1 and 0.7 per cent respectively).

In the first six months of the year the quarterly national accounts showed that households' consumption was up by 2.4 per cent compared with the corresponding period in 1991, an increase that was in line with previous rates of growth and ran counter to the trend of the other components of domestic demand. Presumably, this result was partly determined by the perception that the cyclical slowdown was temporary, a view supported by the emerging signs of recovery at the beginning of the year.

The succession of adverse reports on the political and economic outlook from June onwards strongly affected consumers' expectations (Figure 10). The situation was aggravated by the currency and financial crisis, so that the Isco indicator of household confidence fell abruptly, plunging in October to its lowest level since the recession of the early eighties. With wages and salaries rising more slowly, households' spending decisions were adversely affected by the deteriorating outlook for employment and fears of losses on financial wealth. The supply of industrial consumer goods reflected the downturn in consumer spending in the second half of the year, falling by 1.8 per cent between the second and third quarters.

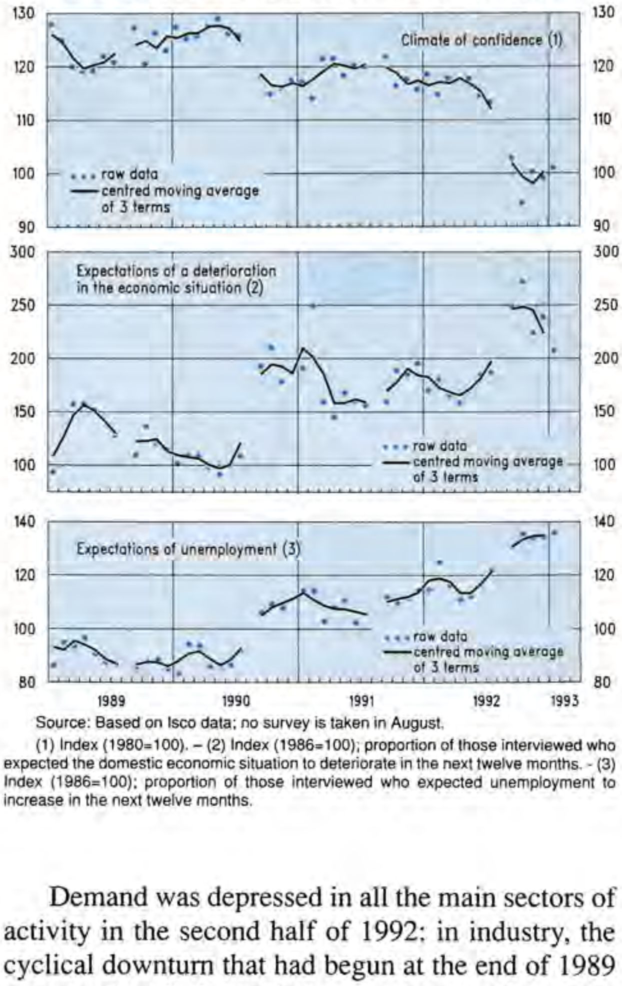
Corroborating evidence is provided by the components that make up the confidence indicator: views of the country's economic situation, the economic situation of households, the employment outlook and the appropriateness of immediate purchases of durable consumer goods turned sharply pessimistic in the autumn, with modest signs of recovery by the end of the year.

Taken together, these data give reason to fear that households' consumption continued to decline in the fourth quarter. Seasonally adjusted, new car sales were more than 4 per cent lower than in the third quarter and around 6 per cent down on the fourth quarter of 1991.

Businessmen's pessimistic expectations of demand, the low rates of capacity utilization and the high cost of borrowing caused firms to trim their investment plans. Fixed capital investment declined by 0.8 per cent between the second and third quarters, with a particularly sharp fall of 5.2 per cent in the case of transport equipment. Deliveries of commercial vehicles in the last quarter were down by more than 15 per cent from a year earlier.

Figure 10

Consumer households' confidence, expectations of unemployment and view of the domestic economic situation



Source: Based on Isco data; no survey is taken in August.

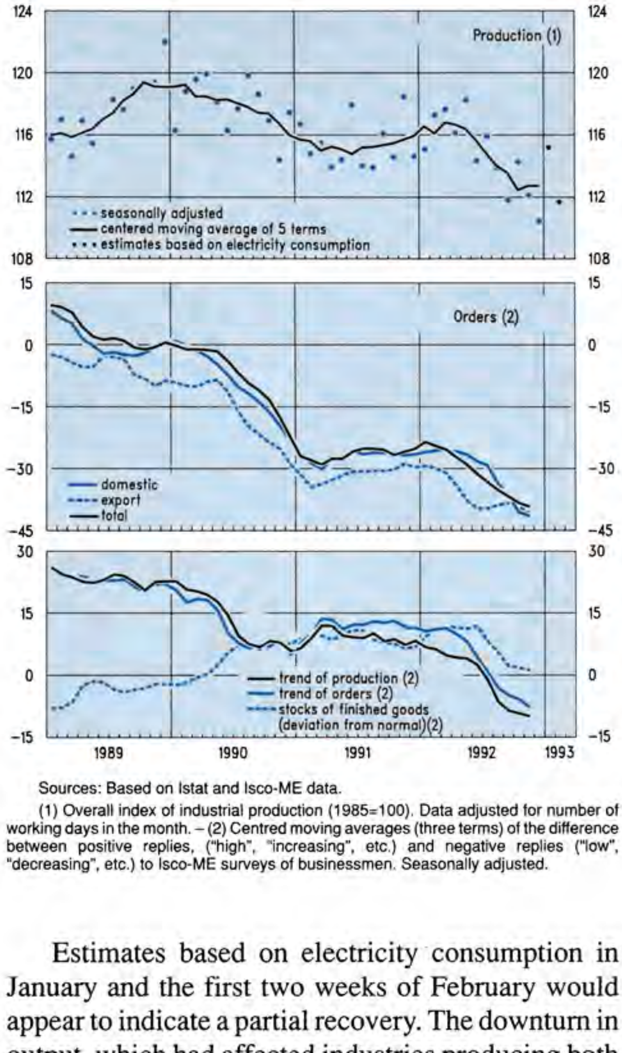
(1) Index (1980=100). – (2) Index (1986=100); proportion of those interviewed who expected the domestic economic situation to deteriorate in the next twelve months. – (3) Index (1986=100); proportion of those interviewed who expected unemployment to increase in the next twelve months.

Demand was depressed in all the main sectors of activity in the second half of 1992; in industry, the cyclical downturn that had begun at the end of 1989 worsened, while in services output remained stagnant in the third quarter; only agriculture bucked the trend.

Industrial production declined by almost 2 per cent between the second and third quarters on a seasonally adjusted basis, reflecting the fall in domestic demand and the running-down of stocks of finished products (Figure 11). It fell by a further 1.4 per cent in the fourth quarter. The year-on-year decline in production was more modest (0.6 per cent) and smaller than that recorded in 1991 (2.1 per cent), partly because of the larger number of working days in 1992.

Figure 11

Industrial output, demand and stocks



Sources: Based on Istat and Isco-ME data.

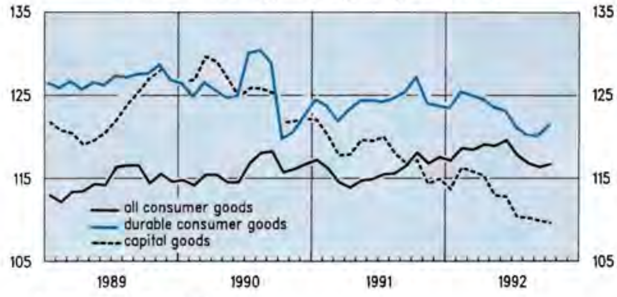
(1) Overall index of industrial production (1985=100). Data adjusted for number of working days in the month. – (2) Centred moving averages (three terms) of the difference between positive replies, ("high", "increasing", etc.) and negative replies ("low", "decreasing", etc.) to Isco-ME surveys of businessmen. Seasonally adjusted.

Estimates based on electricity consumption in January and the first two weeks of February would appear to indicate a partial recovery. The downturn in output, which had affected industries producing both capital goods and consumer durables in the first half of the year, spread to the other parts of the consumer goods industry in the second half (Figure 12). The decline in activity led to a reduction in the level of plant utilization: the capacity utilization rate fell from around 77 per cent in the first half to around 74 per cent in the second.

Figure 12

Industrial production by economic use

(seasonally adjusted indices, 1985=100; centred moving averages of 3 terms)



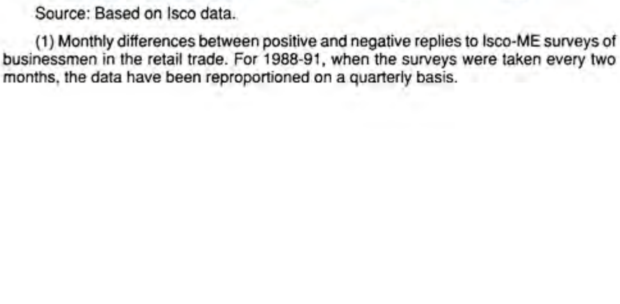
Source: Based on Istat data.

The Isco business surveys on the demand for industrial products do not indicate expectations of an improvement. The marked fall in domestic orders is accompanied by only weak signs of a pick-up in foreign demand; since the beginning of the summer firms have reduced their stocks of finished products, which they considered to be excessive.

There were also signs of a slowdown in activity in several branches of the services sector in the last few months of the year. The index of retail turnover, which Isco bases on a sample survey of firms in the distributive trades, showed a sharp fall from the summer onwards for both traditional and large-scale distribution (Figure 13). In October and November the volume of rail freight was 5.8 per cent less than in the same months of 1991. There was also a slight fall in the number of passengers using Italian airports.

Figure 13

Business trend in the retail trade (1)



Source: Based on Isco data.

(1) Monthly differences between positive and negative replies to Isco-ME surveys of businessmen in the retail trade. For 1988-91, when the surveys were taken every two months, the data have been reproportioned on a quarterly basis.

Employment and the labour market

The demand for labour diminished in 1992. This was due not so much to the decline in production and the deterioration in business sentiment last year as to the slowdown in economic activity in 1990 and 1991 and the simultaneous rise in the relative cost of labour. In previous years the growth in employment in the services sector had more than offset the reduction in industry, but this effect was lacking in 1992.

Since October 1992 the quarterly labour force survey has been conducted on the basis of a new questionnaire. The main methodological innovations are an expansion of the list of branches of economic activity and a re-definition of "job-seeker" to mean persons who have taken at least one action to seek employment in the thirty days preceding the interview.

The methodological changes preclude precise and detailed comparison with previous surveys. The July survey showed that total employment had fallen by 248,000 since January. The October data do not allow the decline in employment to be quantified precisely, but they do appear to indicate a further and sharper reduction since July and a considerable increase in the number of job-seekers, mainly among those who had previously been in work. Following the methodological revision, the unemployment rate in October was similar to the Community average. Although the comparability of data among the EC countries has increased appreciably, the remaining differences in the techniques for recording are impossible to eliminate and make international comparisons difficult.

The fall in employment in industry excluding construction was already large in July, a decline of 188,000, or 3.8 per cent, compared with July 1991. In firms with more than 500 employees, the contraction of the workforce grew more pronounced after the summer and involved clerical staff as well as manual workers; in November the decline came to 2.6 per cent compared with July and 6.9 per cent year on year.

There was an increase in recourse by industrial firms to the Wage Supplementation Fund, with the number of full-time equivalent workers receiving benefits rising by around 11 per cent compared with 1991, a year when the growth in recourse had already been considerable. The number of hours compensated in industry excluding construction declined during the summer but began to rise again in October. The seasonally adjusted number of full-time equivalent workers receiving benefits rose by 47,000, or about 24 per cent, between the third and fourth quarters.

Employment growth in the services sector came to a halt in July. Among the branches worst affected by the employment crisis was the wholesale and retail trade, whose workforce contracted by 46,000 compared with a year earlier. The fall was concentrated among the self-employed, indicating that the cyclical downturn was superimposed on restructuring and concentration already taking place in the sector. Employment in agriculture continued to diminish.

The total number of job-seekers was 3.3 per cent higher in July than a year earlier. The number of unemployed who had previously been in work rose by 9.8 per cent. There were around 100,000 workers registered on the mobility lists at the end of the year. The increase in unemployment was concentrated in the industrial districts of the Centre and North (a rise of 38,000 in July compared with twelve months earlier, or more than 15 per cent). The unemployment rate in these areas rose by half a percentage point. In the South, the deepening of the recession halted the improvement in labour market conditions: the regional unemployment rate was virtually stationary in July, albeit at a high level. The October survey confirmed the persistence of pronounced regional disparities: the unemployment rate was still around two and a half times higher in the South than in the Centre and North.

After accelerating rapidly in 1991 as a result of labour contract renewals, the rise in wages and salaries in the private sector slowed down in 1992, especially in the second half of the year. Wage restraint was only partly attributable to the weakness of the labour market: an important role was played by the agreements reached between unions, employers and the Government on 31 July, which provided, inter alia, for public and private sector pay to be held down by abolishing the *scala mobile* and freezing supplementary company-level bargaining until the end of 1993. Subsequent measures adopted by the Government suspended the renewal of public sector contracts until 1 January 1994. The planned negotiations between the unions and employers with the aim of establishing a new system of wage bargaining, which would determine the level at which negotiations would be conducted and the negotiators' powers, have not yet begun in earnest.

The twelve-month growth in contractual wages in industry excluding construction, which exceeded 8 per cent in the first quarter of 1992, slowed down to 5.6 per cent in May and remained virtually stationary until November, when it fell to 3 per cent. In the second half, the average rate of growth was 4.1 per cent compared with the same period a year earlier. The trend was similar in the retail and wholesale trade. The slowdown was more pronounced in general government, where wages rose by around 3 per cent in the first half of the year and by 1.3 per cent in the second.

Costs and prices

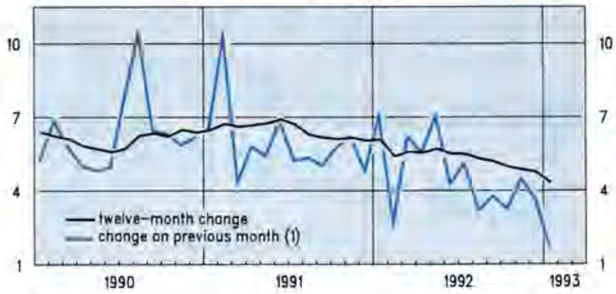
Inflation, as reflected in the cost-of-living index, slowed down sharply in 1992, especially in the second half of the year (Figure 14). In December the twelve-month rate of increase was 4.8 per cent and in January of this year it fell to 4.3 per cent, the lowest level since 1987.

The abolition of wage indexation eliminated an important mechanism for the propagation of inflationary pressures, reducing the expectations of price rises. The deceleration in labour costs helped to curb inflation. The persistent weakness of domestic demand limited the extent to which the rise in the lira costs of imported goods was passed on to consumers. Moreover, lira import prices rose by less than the depreciation of the lira, owing to the weakness of raw material prices and the pricing strategies adopted by foreign suppliers to defend their market shares in Italy. Signs of price rises are emerging only in the stages of distribution upstream of final consumption: the slowdown in wholesale prices, the index for which includes imported products, came to an end in October. The twelve-month increase in the wholesale price index was 2.4 per cent in October and November, as against 1 per cent in September.

Figure 14

Cost of living

(percentage changes)



Source: Based on Istat data.
(1) Annualized; the data are seasonally adjusted.

Disaggregated data on the behaviour of consumer prices after the devaluation of the lira are not yet available, but the freeze on public utility charges from the summer onwards should have helped to bring down inflation. At the end of the year the Government revised the system of indirect taxes on various goods and services in the baskets used for calculating the consumer price indices. The excise tax on several food products (sugar, coffee, seed-oil, cocoa and margarine) was replaced by a higher rate of VAT. The revision should not have significant net effects on the general level of prices.

Table 3

Consumer price inflation differentials between Italy and other EC countries

(differentials between twelve-month rates of increase)

	Three countries with lowest inflation	ERM countries
1990	3.9	1.1
1991	3.7	1.9
1992 (1)	2.9	1.3
1992 - 1st qtr.	3.2	1.5
2nd "	2.7	1.1
3rd " (1)	2.6	1.3
4th " (1)	2.8	1.4

(1) Partly estimated.

The slowdown in consumer prices was more pronounced in Italy than in the rest of the European Community. The inflation differential between Italy and the other ERM countries diminished to an annual average of 1.3 percentage points (Table 3); it narrowed by 0.7 points vis-à-vis France and by more than 1.5 points vis-à-vis Germany, where inflationary pressure is rising. In the fourth quarter the differential between Italy and the three Community countries with the lowest inflation was still 2.8 points.

In manufacturing industry, initial data on the twelve-month rise in output prices on the domestic market after the devaluation show a more or less steady trend: 2.7 per cent in October and 2.8 per cent in November, compared with 2.6 per cent in August and September (Figure 15). According to preliminary estimates, the average twelve-month rise in the second half of the year was probably no greater than 3 per cent. The corresponding increase in input prices was smaller (2.3 per cent), partly as a result of the fall in the dollar prices of raw materials, particularly energy products, although this offset only some of the effects produced by the devaluation in the final part of the year.

Figure 15

Input and output prices in manufacturing
(twelve-month percentage changes)

Sources: Based on Istat and ENI data.

The rise in unit variable costs was limited by the slowdown in wages and the productivity gains achieved as a consequence of the contraction in employment; initial estimates indicate that the increase in unit labour costs in the second half did not exceed 1 per cent. For the year as a whole, the rise in unit variable costs is estimated to have been around 0.8 percentage points lower than that in output prices. This would indicate that the gradual restoration of profit margins, which had been severely squeezed in 1991, continued in the second half of the year, albeit at the slow pace dictated by the decline in domestic demand (Table 4).

Table 4

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

	1991 H1	1991 H2	1991	1992 (1) H1	1992 (1) H2	1992 (1)
Input prices	**5.4**	**3.7**	**4.5**	**2.4**	**2.3**	**2.4**
Domestic	8.7	6.2	7.4	4.3	4.4	4.3
of which: energy	*14.9*	*2.8*	*8.8*	*–2.4*	*2.5*	*0.0*
services	*8.6*	*7.0*	*7.8*	*5.7*	*6.1*	*5.9*
agricultural products	*4.6*	*4.4*	*4.5*	*2.8*	*–1.4*	*0.7*
Foreign	–0.6	–0.9	–0.7	–1.5	0.6	–1.0
of which: energy	*10.1*	*–14.1*	*–2.1*	*–12.7*	*–5.2*	*–9.1*
Unit variable costs	**7.3**	**4.0**	**5.5**	**2.2**	**1.6**	**1.9**
Output prices	**2.9**	**2.6**	**2.8**	**2.4**	**3.0**	**2.7**
of which: on the domestic market	*2.9*	*2.9*	*2.9*	*2.7*	*2.9*	*2.8*

Sources: Based on Istat and ENI data.
(1) Partly estimated.

The balance of payments on current account

According to preliminary estimates, the current account deficit exceeded 29 trillion lire in 1992 (2 per cent of GDP), compared with 26.2 trillion in 1991 (1.8 per cent of GDP; see Table 5).

An improvement of about 4 trillion lire in merchandise trade was more than offset by an increase in the deficit on invisibles. All the main invisible items showed a deterioration that became more pronounced in the course of the year. Continuing a recent trend, by far the largest item was the net outflow of investment income of 22.7 trillion lire, which accounted for three quarters of the current account deficit.

Table 5

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

	1991			1992 (1)		
	H1	H2	Year	H1	H2	Year
Memorandum item:						
Goods (*cif-fob*)	–11,591	–4,416	–16,007	–13,389	708	–12,681
Goods (*fob-fob*)	–3,897	2,987	–910	–5,200	8,200	3,000
Invisibles	–11,422	–13,881	–25,303	–13,300	–19,200	–32,500
Foreign travel	4,920	3,482	8,402	4,000	2,700	6,700
Investment income	–9,380	–10,612	–19,992	–10,100	–12,600	–22,700
Other services, income and transfers	–6,962	–6,751	–13,713	–7,200	–9,300	–16,500
Total	**–15,319**	**–10,894**	**–26,213**	**–18,500**	**–11,000**	**–29,500**

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

The deterioration in the current account was attenuated in the second half of the year by a sharp increase in the surplus on merchandise trade as a consequence of the recession. In the fourth quarter the expected negative impact of the devaluation of the lira on the merchandise balance in value terms failed to materialize. It may have been partly offset by the cyclical decline in import volumes.

Information on the disaggregation of import and export flows into their value and volume components is only available until October. In the first three quarters of the year the average unit values of exports and imports were lower than in the same period of 1991. In October they both rose again, but the increase did not fully reflect the devaluation of the lira owing to cautious pricing by Italian exporters and above all by foreign firms producing for the Italian market.

In the first ten months of the year average unit export values were about the same as in the same period of 1991, while import prices were slightly lower (1.5 per cent). The improvement in the terms of trade that has now been under way for three years thus continued, albeit at a slower pace.

From January to September the average lira prices of imports were 1.9 per cent lower than a year earlier (Figure 16). One contributory factor was the continuing, though slower decline in the dollar prices of crude oil imports (by 6.9 per cent) and other raw materials (by 1.7 per cent). The decrease was accentuated during the summer by the depreciation of the dollar.

Figure 16

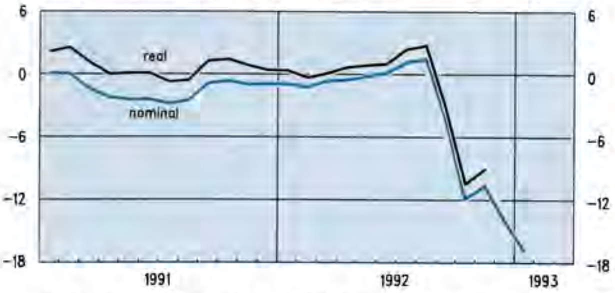
Unit values of imports and main price determinants
(percentage changes on year-earlier period)

Sources: Based on IMF and Istat data.

In October the devaluation of the lira gave a slight upward twist to average unit import values, which showed a twelve-month increase of 1.8 per cent. The average unit value of imported manufactures rose more sharply, at a twelve-month rate of 4 per cent, but this was modest by comparison with the devaluation over the same period and indicates a severe narrowing of profit margins for firms exporting to Italy (Figure 17). The average lira prices of imported raw materials were slightly lower than in October 1991, thanks to the fall in dollar prices.

Figure 17

Effective exchange rates of the lira (1)
(percentage changes on year-earlier period)



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

Until September the prices of exports of manufactures were almost stationary on a twelve-month basis, whereas the industrial output prices of goods for the domestic market showed rates of increase of between 2.5 and 3 per cent. This presumably reflected fiercer competition in foreign markets (Figure 18). The squeeze on profit margins caused by the smallness of the rise in export prices was eased by the deceleration in labour costs.

Towards the end of the year the devaluation of the lira radically altered the competitive picture. The nominal effective exchange rate of the lira was 11.4 per cent lower in November than in August, and by January the depreciation amounted to 17.5 per cent. Measured in terms of the producer prices of manufactures, Italy's gain in competitiveness amounted to 10.6 per cent in November, the latest month for which producer price data are available for all fourteen countries included in the index of competitiveness. Italian exporters of manufactured goods did not raise their selling prices in lire by as much as the depreciation of the lira would have allowed, at least not until October, when the average unit value of exported manufactures was 2.3 per cent higher than in August and 4.8 per cent higher than a year earlier. The associated recovery in profit margins on foreign markets was amplified by the simultaneous deceleration in labour costs. As noted above, the lira prices of imported manufactures rose at a similar rate in October, reflecting pricing policies aimed at defending market shares even at the cost of a sharp narrowing of profit margins.

In the first ten months of 1992 imports were 4.4 per cent higher in volume terms than in the same period of 1991. On a seasonally adjusted basis there was a marked deceleration in the course of the year owing to the contraction of domestic demand. Imports fell by 3 per cent between the second and third quarters and by a further 3.5 per cent between September and October.

Figure 18

Industrial output prices on the domestic market and unit values in lire of exports and imports of manufactures
(percentage changes on year-earlier period)

After stagnating in 1991, exports began to grow in volume again last year. The expansion was fostered in the first part of the year by a mild recovery in world demand. Subsequently, the slackening of domestic demand prompted Italian firms to concentrate on markets abroad, especially those of a number of Middle Eastern and Far Eastern countries where demand was growing very rapidly, in contrast to the situation in the industrial economies. From January to October exports grew by 4.7 per cent at constant prices.

At current prices, nearly two thirds of the improvement in the merchandise trade balance in 1992 was attributable to the reduction in the energy deficit (Table 6), which was due not only to lower prices but also to the steady slowdown in the volume of imports. All the non-energy sectors except transport equipment also showed an improvement; exports of transport equipment were roughly unchanged but imports continued to rise, causing the sector's annual deficit to increase by 60 per cent to 10.7 trillion lire. At constant prices, the sector's exports declined by 2.3 per cent during the first ten months of the year while imports expanded by 9 per cent.

The traditional surplus on trade in metal products and machinery increased by 2.1 trillion lire last year, thanks to the strong performance of exports, which continued to grow at the same pace as in 1991, and a marked deceleration in import growth from 4.6 to 2.1 per cent. In the first ten months, the improvement was due principally to changes in volume. By contrast, the surplus recorded by the textile, leather products and clothing sector for the year as a whole increased only marginally at current prices (by 450 billion lire). This reflected a substantial recovery in imports, which grew by 8.2 per cent, while exports increased by only 4.5 per cent. The terms of trade in this sector improved by 6.2 per cent during the first ten months of the year, thanks mainly to a 5 per cent fall in import prices.

The deficit on trade with the other EC countries widened by 2.4 trillion lire during the first eleven months of the year, but from July onwards it was running at the same rate as in the corresponding months of 1991, owing partly to a sharp slowdown in the growth of imports from Germany and France. For 1992 as a whole, however, the increase in the deficit vis-à-vis these two countries outweighed the improvement in the surplus on trade with Spain, Portugal and the United Kingdom (Table 7). The surplus vis-à-vis the United States increased by 800 billion lire, as imports stagnated while exports rose by 5.5 per cent, benefiting from the expansion in US demand. Imports from the OPEC area fell on average by 11.2 per cent, while buoyant demand led to a 14.4 per cent increase in exports, reducing the trade deficit with these countries by almost 3 trillion lire. The deficit on trade with Eastern European countries narrowed by more than 1.2 trillion lire, thanks to very rapid export growth of 32.1 per cent.

Table 6

Merchandise trade by product group

(cif-fob; *billions of lire*)

	1991			1992		
	H1	H2	Year	H1	H2	Year
Agricultural, forestry and fishery products	–5,322	–4,628	–9,950	–5,218	–3,820	–9,038
Fuel and power products	–11,231	–10,945	–22,176	–9,990	–10,113	–20,103
Ferrous and non-ferrous ores and metals	–5,683	–4,823	–10,506	–5,569	–4,968	–10,537
Non-metallic minerals and mineral products	2,056	2,218	4,274	2,172	2,477	4,649
Chemical products	–7,007	–4,858	–11,865	–7,010	–4,724	–11,734
Metal products and machinery	9,296	11,078	20,374	9,627	12,838	22,465
Transport equipment	–2,773	–3,889	–6,662	–6,081	–4,597	–10,678
Food, beverages and tobacco products	–4,449	–4,497	–8,946	–4,326	–4,055	–8,381
Textiles, leather products and clothing	10,506	11,896	22,402	10,101	12,749	22,850
Other	3,016	4,032	7,048	2,905	4,921	7,826
Total	**–11,591**	**–4,416**	**–16,007**	**–13,389**	**708**	**–12,681**

Source: Istat.

Table 7

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

	Exports				Imports				Balance	
	Value		Percentage change	Percentage of total 1992	Value		Percentage change	Percentage of total 1992	Value	
	1991	1992			1991	1992			1991	1992
OECD	**151,231**	**154,953**	**2.5**	**77.8**	**158,824**	**165,302**	**4.1**	**77.4**	**–7,593**	**–10,349**
EC	112,558	115,969	3.0	58.3	119,790	125,620	4.9	58.8	–7,232	–9,651
Belgium-Luxembourg	6,486	6,720	3.6	3.4	10,119	10,371	2.5	4.9	–3,633	–3,651
Denmark	1,489	1,552	4.3	0.8	2,036	2,143	5.3	1.0	–547	–591
France	28,991	29,389	1.4	14.8	29,359	30,775	4.8	14.4	–368	–1,386
Germany	40,292	40,745	1.1	20.5	43,592	46,280	6.2	21.7	–3,300	–5,535
Greece	3,442	3,618	5.1	1.8	1,714	1,856	8.3	0.9	1,728	1,762
Ireland	638	641	0.5	0.3	1,325	1,526	15.2	0.7	–687	–885
Netherlands	6,001	6,255	4.2	3.1	11,948	12,536	4.9	5.9	–5,947	–6,281
Portugal	2,926	3,311	13.2	1.7	757	791	4.6	0.4	2,169	2,520
Spain	9,660	10,433	8.0	5.2	7,243	7,176	–0.9	3.4	2,417	3,257
United Kingdom	12,633	13,305	5.3	6.7	11,697	12,166	4.0	5.7	936	1,139
Switzerland	8,091	7,998	–1.1	4.0	9,218	9,607	4.2	4.5	–1,127	–1,609
Other European countries (1)	10,616	10,766	1.4	5.4	10,562	10,895	3.2	5.1	54	–129
Other OECD countries (2)	19,966	20,220	1.3	10.1	19,254	19,180	–0.4	9.0	712	1,040
of which: Canada	*1,518*	*1,447*	*–4.7*	*0.7*	*1,549*	*1,685*	*8.8*	*0.8*	*–31*	*–238*
Japan	*4,194*	*3,844*	*–8.4*	*1.9*	*5,174*	*5,022*	*–2.9*	*2.4*	*–980*	*–1,178*
United States	*13,033*	*13,757*	*5.5*	*6.9*	*11,353*	*11,286*	*–0.6*	*5.3*	*1,680*	*2,471*
Eastern European countries (3)	**5,286**	**6,981**	**32.1**	**3.5**	**8,096**	**8,545**	**5.5**	**4.0**	**–2,810**	**–1,564**
of which: former USSR	*2,593*	*3,060*	*18.0*	*1.5*	*5,230*	*4,859*	*–7.1*	*2.3*	*–2,637*	*–1,799*
OPEC countries (4)	**8,787**	**10,054**	**14.4**	**5.1**	**14,646**	**13,001**	**–11.2**	**6.1**	**–5,859**	**–2,947**
Other	**24,300**	**27,123**	**11.6**	**13.6**	**25,940**	**26,788**	**3.3**	**12.5**	**–1,640**	**335**
of which: China	*1,313*	*1,524*	*16.0*	*0.8*	*2,665*	*3,195*	*19.9*	*1.5*	*–1,352*	*–1,671*
Total	**189,604**	**199,111**	**5.0**	**100.0**	**207,506**	**213,636**	**3.0**	**100.0**	**–17,902**	**–14,525**

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, former 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.

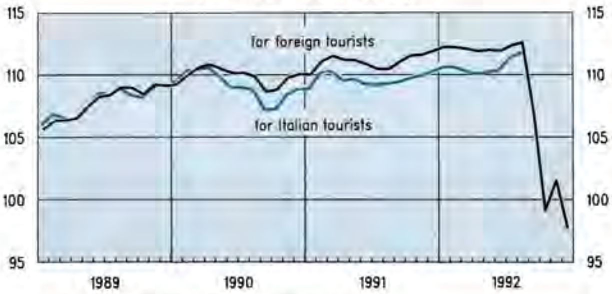
According to provisional data, there was a deficit of 32.5 trillion lire on invisibles in 1992, an increase of more than 7 trillion compared with 1991. In the first half of the year the deficit widened by less than 2 trillion lire, but the deterioration accelerated in the second half, producing a deficit of 19.2 trillion lire compared with one of 13.9 trillion in the same period of 1991.

The net outflow of investment income amounted to 22.7 trillion lire in 1992, compared with 20 trillion in 1991. The current account deficit further increased Italy's net external indebtedness. Interest rate differentials between the lira and the other major currencies steadily increased, reaching a peak in the autumn and contributing to a widening of the yield gap between Italy's external assets and its external liabilities, a greater proportion of which are denominated in lire. As the currency composition of interest payments and receipts reflects that of liabilities and assets, the devaluation of the lira alleviated the net outflow during the final part of the year.

The surplus on foreign travel contracted by 1.7 trillion lire; in the second half alone, the surplus was about 800 billion lire less than a year earlier. While spending in Italy by non-residents increased only slightly, Italians' spending abroad grew substantially at both current and constant prices. Although the settlements data have been adjusted for exports of capital that were not properly recorded, especially at the height of the currency crisis, the third-quarter outflow figures may still be affected by this factor. The further slight deterioration in the competitiveness of Italian tourist services in the first six months of the year (Figure 19) may have adversely affected the number of foreign visitors coming to Italy between January and July, which was 3 per cent lower than in the same period of 1991. However, real per capita expenditure appears to have risen, which can be ascribed at least partly to the substantial increase in the number of tourists from countries with a higher propensity to spend, such as the United States and Japan.

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. Data for the last two months are partly estimated.

Capital movements and the exchange rate

In 1992 as a whole there was a net capital outflow of 500 billion lire, compared with an inflow of almost 26.6 trillion in 1991 (Table 8). Together with the current account deficit and the small outflow on account of "errors and omissions", this caused the official reserves to decrease by 32.5 trillion lire, after adjustment for variations in exchange rates and the price of gold.

The annual outturn is the result of sharply contrasting movements during the course of the year. In the first five months the pattern was not significantly different from that observed in previous years. The result of the Danish referendum on the Maastricht Treaty at the beginning of June triggered powerful destabilizing forces within the EMS, which had an immediate and virulent effect on the lira, owing primarily to the manifest difficulty of managing the worsening budget deficit. The approach of the French referendum in September exacerbated the strains between member currencies. The lira fell to the lower limit of the narrow fluctuation band, activating compulsory intervention at the margin by the Bundesbank and the National Bank of Belgium. The French franc, the pound sterling, the peseta and the escudo all depreciated significantly against the Deutschemark. The realignment of the lira on 13 September was not in itself sufficient to restore order in the foreign exchange markets, and within days first the British and then the Italian authorities suspended intervention in defence of their respective currencies' central rates. The central rates of the peseta were also lowered by 5 per cent.

In the fourth quarter the partial easing of market tensions allowed the slow process of stabilizing exchange rate expectations to begin. The primary impetus came from the Government's package of fiscal measures, which was introduced after the floating of the lira. In the most acute moments of the crisis, the defence of the lira had required massive short-term recourse to the European Monetary Cooperation Fund under the exchange rate agreements among the EMS countries. Most of these

Table 8

Net capital movements
(billions of lire)

	1991	1992 (1)			
	Year	Jan.-May	June-Sept.	Oct.-Dec.	Year
Foreign investment in Italy	26,306	5,324	2,183	11,275	18,782
Italian investment abroad	–39,878	–35,231	–20,845	23,762	–32,314
of which: portfolio	*–30,789*	*–32,235*	*–15,407*	*26,364*	*–21,278*
Foreign loans	13,409	9,217	563	–4,631	5,149
Italian loans	–7,671	–1,261	–2,484	–1,710	–5,455
Trade credits, other capital movements	–4,952	971	–6,661	–6,154	–11,844
Non-bank capital flows	–12,786	–20,980	–27,244	22,542	–25,682
Bank capital flows (2)	39,369	35,202	–10,776	753	25,179
Total	**26,583**	**14,222**	**–38,020**	**23,295**	**–503**
Memorandum items:					
Current account	–26,213	–17,226	–8,608	–3,666	–29,500
Errors and omissions	–8,941	–3,296	–6,085	6,835	–2,546
Change in official reserves (3)	8,571	6,300	52,713	–26,464	32,549

(1) Provisional or partly estimated. – (2) Via resident banking institutions. – (3) At constant exchange rates and prices. A minus sign indicates an increase in reserves.

liabilities were repaid in December, thanks partly to Bank of Italy currency swaps with resident banks during the fourth quarter, when official reserves increased by more than 26 trillion lire.

The balance-of-payments flows in the first nine months of the year were described in the previous issue of the *Bulletin*; a more detailed treatment is contained in the article "The Italian balance of payments in the period from June to September 1992" in the present issue.

In the last three months of 1992 there was a net capital inflow of almost 23.3 trillion lire, compared with a net outflow of 38 trillion in the previous four months. According to provisional settlements data, the net inflow of non-bank capital amounted to 22.5 trillion lire, reversing the net outflow of 27.2 trillion recorded between June and September.

The repatriation of Italian investment from abroad generated large-scale net inflows (23.8 trillion lire) as a result of the large uncovered yield differential in favour of lira-denominated financial assets, once the sharp devaluation had dispelled expectations of a further depreciation and the spectre of financial crisis that had loomed in September had receded. Net inward investment by non-residents, which had slowed down considerably between June and September, also returned to a high level (11.3 trillion lire, mostly in November and December). Foreign loans gave rise to net outflows of 4.6 trillion lire, the consequence of large redemptions in November and December.

The banking system's net foreign debtor position remained virtually unchanged at constant exchange rates during the fourth quarter. In October and November there were further net outflows of banking capital of about 3 and 3.8 trillion lire respectively, but this was far less than in September, despite Bank of Italy finance to the banking system in the form of currency swaps totaling more than 17 trillion lire. The banks' net external foreign currency liabilities continued to decline in October and November (by

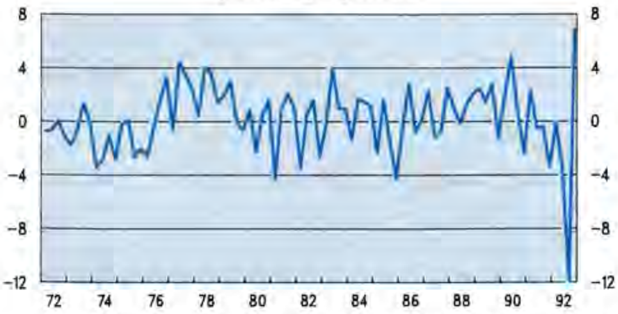
The function of the official reserves and the effect of exchange rate changes on Italy's external position

A country's official reserves consist of the short-term claims of the central bank on non-residents, net of the corresponding liabilities. Reserves are constituted by the central bank, in general as the counterpart to surpluses in the balance of payments on current account or net foreign indebtedness on the part of other resident operators, in order to intervene in the foreign exchange market as necessary to keep the external value of the currency consistent with monetary and exchange rate targets, taking into account any international monetary agreements to which the country is party. Given this function, in any exchange rate regime other than perfectly free floating, the volume of official reserves is inherently variable.

This variability is evident in the pattern of Italy's reserves over the past twenty years (Figure 1). Naturally, it should be borne in mind that until the later eighties the exchange rate of the lira was bolstered not only by foreign exchange market interventions but also by the many restrictions on Italian residents' capital movements.

Figure 1

Changes in official reserves (1)
(percentage of GDP)



(1) Quarterly change in the net external position of the central bank (BI-UIC), net of valuation adjustments in the quarter.

Italy's official reserves decreased by about 32.5 trillion lire in 1992, after adjustment for exchange rate variations (see Table a17 in the statistical appendix). The overall change was the result of an outflow of 6.3 trillion lire through the end of the month of May; massive exchange market interventions from June until mid-September, in line with the overall orientation of economic policy, to counter the downward pressure exerted on the lira by market forces in anticipation of an imminent realignment of central rates within the EMS; and the return flow of 26.5 trillion lire during the fourth quarter, prompted by the Bank of Italy's currency swaps with resident banks.

Table 1

Net external position of the central bank (BI-UIC)
(in billions of lire)

	31 Dec. 1991	29 May 1992	17 Sept. 1992	15 Feb. 1993
Net external position (BI-UIC)	94,338	86,347	41,096	66,995
of which: convertible currencies	*41,229*	*34,057*	*12,064*	*35,011*

The inflow brought total official reserves back to 67 trillion lire in mid-February; reserves in convertible currencies rose to 35 trillion lire (Table 1), more than at the end of May 1992, just before the inception of the crisis, thanks in part to the increased value of the asset components denominated in the currencies that appreciated most sharply against the lira (above all, the US dollar). The capital gain or loss accruing to the central bank as a result of reserve and foreign exchange variations in 1992 will be shown in the consolidated profit and loss account of the Bank of Italy and Italian Foreign Exchange Office.

The sharp appreciation of the dollar and Deutschemark affected not only the lira value of the official reserves but that of all the other components of Italy's external position. The overall accounting effect of the exchange rate variations registered in the course of 1992 on the country's net external position valued in lire

Table 2

Currency composition of selected Italian external assets and liabilities at 31 December 1991
(in billions of lire and percentage shares)

	Total		Lire	Dollars	DM	Ecus	Other currencies
	Value	Share					
Assets (1)	488,294	100.0	16.0	30.1	20.6	16.2	17.1
Loans (2)	24,251	5.0	55.5	20.6	7.0	7.8	9.1
Trade credits (3)	52,285	10.7	39.0	15.0	19.0	2.0	25.0
Bank capital	124,746	25.5	10.9	41.3	9.7	17.0	21.1
Official reserves (4)	95,913	19.6	–	26.3	39.1	24.9	9.7
Other	191,099	39.2	....	....	....	....	....
Liabilities (1)	608,736	100.0	24.2	23.7	14.2	16.4	21.5
Loans	124,200	20.4	46.5	12.8	8.9	15.9	15.9
Trade credits (5)	31,140	5.1	34.0	19.0	20.0	1.0	26.0
Bank capital	275,993	45.3	13.1	29.2	15.9	18.3	23.5
Other	177,403	29.2	....	....	....	....	....
of which: Treasury's external indebtedness (6)	*72,752*	*12.0*	*35.5*	*16.4*	..	*45.1*	*3.0*

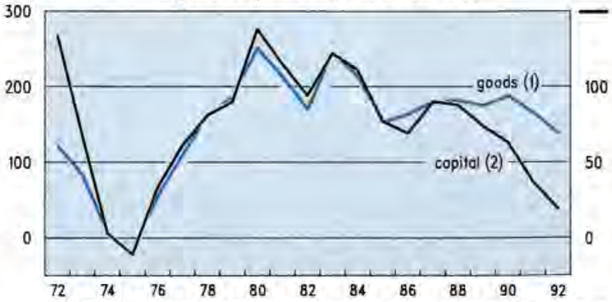
(1) Currency composition refers to the sets of items for which this disaggregation is available. – (2) The currency composition does not include claims of SACE against damages paid. – (3) The currency composition is estimated on the basis of the average composition of deferred settlements of export transactions. – (4) The currency composition is computed for convertible currencies and foreign securities in foreign currency. –(5) The currency composition is estimated on the basis of the average composition of deferred settlements of import transactions. – (6) Government securities and the portion of foreign issues by the Republic of Italy held by non-residents.

could prove to be more or less neutral: the partial data and estimates now available indicate that these currencies have far greater incidence on assets than on liabilities, but liabilities are larger in absolute terms (Table 2). The fact that at the end of 1991 more than one third of the Treasury's indebtedness with non-residents was denominated in lire helped contain the expansion of the debt due to exchange rate variations.

A nation's reserves can be assessed not only in monetary units but also with reference to the international openness of the economy. In empirical work, one very common such measure is the average daily flow of merchandise imports; an alternative, financial index is the average gross daily outflow of capital (domestic and foreign combined). Tracing variations in Italy's official reserves in relation to these indicators over the past twenty years (Figure 2), one notes in particular the divergence between the two in the second half of the eighties as international financial flows expanded much more rapidly than merchandise trade.

Figure 2

Net external position of the central bank (BI-UIC)
(number of days of goods imports and gross capital outflows covered)



(1) Ratio of net position at the end of the previous year to average daily imports of goods. – (2) Ratio of net position at the end of the previous year to average daily gross capital outflow (outflows of bank capital are net).

5.1 trillion lire), while their external lira liabilities remained almost unchanged. The net combined spot and forward liabilities in foreign currencies that had built up progressively in the early part of 1992 owing to the taking of long positions in lire diminished from 17.8 trillion lire in September to 11.9 trillion in November. Unless this decrease was offset by a rise in domestic currency swaps, which do not appear in the foreign exchange position, it will have reduced the banking system's exchange risk.

In December, after three months of contraction, the banks' net foreign debtor position increased by about 7.5 trillion lire. The Bank of Italy again effected a substantial volume of currency swaps (13.2 trillion lire). The banks alone were responsible for net inflows equivalent to 5.3 trillion lire, 4.6 trillion of it in foreign currency. The sharp reduction in forward foreign currency liabilities nevertheless produced a further improvement in their overall foreign exchange position.

During the first nine months of the year exchange market intervention resulted in a reduction of 32.5 trillion lire in the official reserves, net of some 27 trillion lire in liabilities towards the EMCF. Since then the reserves have been slowly replenished, a process fostered by the lira financing the Bank of Italy offers to Italian banks under currency swaps. During the fourth quarter the banks found it increasingly advantageous to raise foreign exchange abroad for this purpose, thereby facilitating the reconstitution of the foreign exchange reserves. By the end of the year nearly three quarters of the short-term liabilities to the EMCF had been repaid.

Public finances

The 1992 state sector borrowing requirement amounted to 163.1 trillion lire, an increase of nearly 11 trillion lire on the previous year. The ratio of this aggregate to GDP remained unchanged at 10.7 per cent, the value recorded in both 1990 and 1991 (Table 9).

For the first time since the beginning of the seventies the budget balance net of interest payments was positive last year, having shifted from a deficit of 7 trillion lire in 1991 to a surplus of 9 trillion lire, equal to 0.6 per cent of GDP; the improvement amounted to more than 1 per cent of GDP. If the interest paid on government securities is calculated net of withholding tax, the primary balance remained in deficit by 0.5 per cent of GDP and the improvement in relation to 1991 was around 0.8 per cent of GDP.

Last year saw further efforts by the authorities to reduce the imbalances that continued to emerge in the public finances; the budget approved at the end of 1991 was supplemented by additional measures in July. The borrowing requirement nonetheless exceeded the Government's original target of 127.8 trillion lire by 35 trillion.

The overshoot was primarily attributable to the increase in the interest burden caused by the rise in issue rates and the postponement of planned privatizations. At a time of turbulence in foreign exchange markets and concern about the trend of the public finances, the rise in interest rates reflected the decline in investor confidence in government securities owing to uncertainty about the political situation and the outlook for economic growth, both in Italy and abroad. Groundless fears that the Government would resort to extraordinary financing measures also played a part.

The weighted average issue yield on Treasury bills rose from 12.5 per cent in 1991 to 14.3 per cent last year. During the year interest rates followed a fluctuating course: after falling slightly in the first quarter, yields rose sharply in the summer months, reaching 18 per cent in September at the height of the European foreign exchange crisis. Once this had been overcome, issue rates began to come down gradually. The decline continued in the early months of this year, with yields first falling to levels just above those recorded at the beginning of 1992 and then to below 12 per cent in February. The return to a downward trend in rates from October onwards made it possible to limit the cost to the Treasury of the large volume of short-term paper issued in the last part of the year. Total interest payments in 1992 were nonetheless around 18 trillion lire more than the Government had estimated at the end of the previous year. Almost 3 trillion of this difference was due to the financing of the overshoot on the borrowing requirement.

Table 9

State sector balances
(billions of lire)

	1991			1992		
	H1	H2	Year	H1	H2	Year
Borrowing requirement, net of settlements of past debts (1)	58,023	94,226	152,249	73,071	89,979	163,091
as a % of GDP			*(10.7)*			*(10.7)*
Total borrowing requirement	58,028	94,294	152,322	73,099	90,001	163,123
as a % of GDP			*(10.7)*			*(10.7)*

(1) No debts were settled by issuing securities in 1991 and 1992. Cash settlements amounted to 73 billion lire in 1991 and 32 billion lire in 1992.

The progressive divergence of economic conditions from the scenario envisaged at the end of 1991 also contributed to the increase in the deficit. GDP growth was about 1.5 percentage points lower than predicted in the Government's Forecasting and Planning Report for 1992 and the GDP price deflator was about 1 percentage point higher. It is estimated that the lower rate of real GDP growth reduced the improvement in the primary balance by around 0.5 per cent of GDP, despite the increase in indirect tax revenue induced by higher inflation. The postponement of privatizations resulted in a further 15 trillion lira reduction compared with the initial projection, and another 7 trillion lira shortfall stemmed from the failure to implement some measures included in the calculation of the deficit on a current programmes basis; these related primarily to the adjustment of specific taxes for inflation.

The budget announced in September 1991 was intended to reduce the state sector borrowing requirement from the 183 trillion lire estimated on a current programmes basis to 127.8 trillion. Most of the revenue measures were of a temporary nature, while the steps taken to curb expenditure mainly concerned public employment, the health service and transfers to firms. The budget measures were approved without significant amendment, but by the early months of the year cash flow already appeared inconsistent with the objective. In March the quarterly report on the borrowing requirement presented by the Treasury Minister indicated that the deficit was heading towards 150 or 160 trillion lire owing to the stagnation of tax receipts, the failure to raise excise duties in line with inflation and the increase in interest payments.

On 11 July the Government issued a Decree Law containing supplementary measures forecast to produce additional revenues and expenditure savings totaling 23 trillion lire. Since the receipts expected from privatizations were reduced by 8 trillion lire, the package aimed to reduce the state sector borrowing requirement by only 15 trillion compared with the March estimate. At almost the same time the Government submitted an enabling bill seeking powers 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 recognized the difficult situation of the public finances in view of unsettled conditions in financial markets and the downturn in economic activity. Even after taking account of the measures that had just been introduced, the Document raised the target for the borrowing requirement to 150 trillion lire.

On 17 September, the day on which Italy decided to suspend compulsory intervention within the EMS, the Council of Ministers approved the Government's budget proposals for 1993. The measures were forecast to produce an adjustment of 93 trillion lire and gave early effect to some of the provisions contained in the enabling bill. In the three following months Parliament approved all the Government's budgetary measures: on 23 October the enabling law was passed, on 14 November the Decree containing the main tax provisions was ratified, and in December the Finance Law was adopted and decrees were issued implementing the structural reforms foreseen in the enabling law.

However, the downturn in economic activity in this period aggravated the slower growth in tax revenues. The twelve-month increase in indirect tax receipts, which had been close to 9 per cent in the first quarter, declined steadily during the year and was less than 5 per cent in the fourth quarter. The fall in industrial output halted the rise in some revenue from taxes on oil products and the spread of the recession to consumption depressed receipts from domestic VAT. The fall in employment and the slow rise in earnings affected income tax withheld at source, with the result that the twelve-month increase in this revenue declined from 17 per cent in the second quarter to 5 per cent in the fourth. The slowdown in central government tax revenue and the definitive postponement of all privatization plans to later years caused the borrowing requirement for the year to rise to over 163 trillion lire. It thus exceeded even the estimate of 155 trillion published in September in the Forecasting and Planning Report for 1993, notwithstanding the early introduction of some 1993 budget measures and the postponement of some health service outlays.

The total adjustment produced by the budgetary measures implemented in 1992 is estimated at around 60 trillion lire, or about 4 per cent of GDP, compared with 3.2 per cent in 1991, 1.8 per cent in 1990 and even less in the preceding years.

Almost two thirds of the adjustment was on the revenue side; the temporary measures, whose effect was confined to 1992, contributed nearly 80 per cent of the additional receipts. Structural measures were adopted to modify the ownership structure of public enterprises in preparation for their privatization. In addition to the transformation of the state holding companies into private law companies as part of the July package and the change in the legal form of the State Railways in August, it is worth noting the transfer of the State Telephone Company to IRI at the end of the year and the simultaneous announcement of plans to overhaul telephone charges.

The proportion of the state sector borrowing requirement attributable to the narrowly-defined state budget declined further to 70 per cent, compared with 86 per cent in 1991. In part this was due to stricter control over government departments' spending commitments. As in the previous five years, the borrowing requirement was larger in the second half of the year, though the disparity was less pronounced. In the first quarter the amount to be financed was boosted by the acceleration in budget outlays, especially on wages and salaries, which rose by 22 per cent, and purchases of goods and services, which increased by 43 per cent. In the third quarter, by contrast, the extension of the deadline for the payment of self-assessed taxes and the sharp slowdown in budget outlays curbed the growth in the borrowing requirement.

The composition of the state sector's funding changed significantly compared with the previous year. Domestic issues of medium and long-term securities fell from 74.8 per cent of the total to 56 per cent, while net sales of short-term paper jumped from 7.6 to 28.5 per cent, thus reversing the relative decline that has taken place in this component since 1989. The importance of Post Office deposits continued to diminish, with their share falling from 7.7 to 6.5 per cent, while foreign borrowing made no net contribution at all.

The debt of the state sector increased by 12.6 per cent to 1,637.5 trillion lire at the end of the year. The average residual term to maturity remained unchanged at close to two years and ten months, since the large issues of ten-year securities in the first half offset the rise in the share of short-term paper in the second. Despite the substantial improvement in the primary balance, the disparity between the average interest rate paid on the debt and the rate of growth in nominal GDP caused the debt to rise from 101.9 to 107.7 per cent of GDP, the largest increase since 1985. One percentage point of the rise was due to the increase in the lira value of liabilities denominated in foreign currencies and ecus induced by the devaluation, which affected the public debt but not the borrowing requirement.

The main items of the public accounts

Preliminary estimates indicate that general government net borrowing amounted to 153 trillion lire, compared with 146 trillion in 1991. In relation to GDP at current prices it decreased by about one tenth of a percentage point to 10.1 per cent (Table 10).

The small decline in this ratio was due to revenue having increased by 1.8 percentage points in relation to GDP and expenditure by only 1.7 points. Most of the divergence compared with the state sector borrowing requirement, which remained unchanged in relation to GDP, can be attributed to the proceeds from asset disposals made in 1991 since these receipts reduced the borrowing requirement in that year but had no effect on net borrowing.

The growth in revenue was fueled by the increase in the tax component from 25.8 to 27.6 per cent of GDP, thereby continuing the rising trend that began in the mid-eighties. The ratio of total fiscal revenue to GDP rose by around 1.5 percentage points to 42.2 per cent. The difference between the increases in the two indicators was due to the small reduction in social security contributions in relation to GDP and to the absence of an increase in local taxes. This year, by contrast, is likely to bring a substantial increase in local taxes following the reform of local authority finances, which will give local authorities greater taxation powers.

Table 10

General government income statement
(billions of lire; percentage changes)

	1991	1992	1991 / 1990	1992 / 1991
EXPENDITURE				
Wages and salaries ..	181,201	190,500	8.5	5.1
Intermediate consumption	70,535	74,500	10.7	5.6
Social services	260,781	287,500	9.5	10.2
Production subsidies .	33,820	37,300	15.0	10.3
Debt interest	145,551	173,000	15.4	18.9
Other	26,047	28,531	14.6	9.5
Total current expenditure	**717,935**	**791,331**	**11.0**	**10.2**
as a % of GDP	*50.3*	*52.1*	–	–
Investment	47,298	49,000	7.3	3.6
Investment grants ...	15,380	16,200	–12.3	5.3
Other capital expenditure	1,489	1,800	–63.5	20.9
Total capital expenditure	64,167	67,000	–2.3	4.4
Total expenditure ..	**782,102**	**858,331**	**9.7**	**9.7**
as a % of GDP	*54.8*	*56.5*	–	–
REVENUE				
Direct taxes	209,530	251,000	10.1	19.8
Indirect taxes	158,412	168,500	13.7	6.4
Social security contributions	209,966	222,200	10.9	5.8
Other	55,918	61,231	16.3	9.5
Total current revenue	**633,826**	**702,931**	**11.8**	**10.9**
Capital revenue	2,238	2,400	6.3	7.2
Total revenue	**636,064**	**705,331**	**11.7**	**10.9**
as a % of GDP	*44.6*	*46.4*	–	–
Net borrowing	**146,038**	**153,000**	–	–
as a % of GDP	*10.2*	*10.1*	–	–
Borrowing net of debt interest	487	–20,000	–	–
as a % of GDP	*0.0*	*–1.3*	–	–
Total fiscal revenue (1)	577,908	641,700	11.3	11.0
as a % GDP	*40.5*	*42.2*	–	–
Deficit on current account	84,109	88,400	–	–
as a % of GDP	*5.9*	*5.8*	–	–

Source: Isco.
(1) Direct and indirect taxes and social security contributions.

General government's current expenditure increased by 10.2 per cent. Interest payments contributed significantly to this result, rising by 18.9 per cent to 173 trillion lire owing both to the growth in the debt and to the rise in issue rates. The average interest rate paid on the debt rose from 10.5 to 11.1 per cent, and from 9.7 to 10.1 per cent when the withholding tax on interest is excluded from the calculation. The rise in interest rates increased the cost of financing by means of Treasury bills and, with the usual lags, Treasury credit certificates. The interest burden was also aggravated by the increase in Treasury bill financing from 13.9 to 44.7 trillion lire, since the related interest is included in the accounts at issue. These composition effects are estimated to have resulted in more than 2 trillion lire of additional expenditure.

Current expenditure other than interest payments rose from 40.1 to 40.6 per cent of GDP, although the rate of increase in this item slowed from approximately 10 per cent in 1991 to around 8 per cent.

The rate of increase in spending on wages and salaries fell to around 5 per cent, compared with the peak of 17.3 per cent recorded in 1990. The decline in the rate was countered by the increases in social contributions payable by local authorities and the rise in the imputed social contributions of central Government. Net of these items, the wage bill of general government grew by around 4 per cent, of which nearly half was due to cost-of-living allowances granted in 1991.

Spending on social services expanded by 10.2 per cent, with a substantial rise in unemployment benefits and a slightly above-average increase in pension outlays. Automatic increases contributed about 8 percentage points to the latter: 2.5 points arose from the increases granted in 1991 on the basis of the target rate of inflation, more than 3 points were due to the increase granted at the beginning of the year to compensate for the difference between the actual and target rates of inflation in 1991, almost 2 points were attributable to the May 1992 adjustment, and the rest reflected the pegging of pensions to real earnings. Pension outlays were also affected by the rise in the number of benefits disbursed and the decline in the proportion of pensions of longest standing, which are generally smaller than those that matured more recently. The increase in disbursements to the unemployed and to workers receiving benefits from the Wage Supplementation Fund reflected the difficult economic situation. On the other hand, the increases in the proportion of health costs to be borne by patients, which had been introduced in the 1992 budget, helped curb expenditure.

The growth in intermediate consumption was held down by the budgetary measures adopted in December 1991 and those included in the July supplementary package. The increase was just over half that recorded the previous year, while in real terms the total outlay was virtually unchanged.

Capital expenditure rose by 4.4 per cent; in 1991 it had fallen by more than 2 per cent, as the accounts for 1990 had included around 2.9 trillion lire for the settlement of debts contracted by municipal transport companies in earlier years.

Tax revenues increased by 14 per cent, with direct taxes jumping by nearly 20 per cent. Indirect taxes rose by 6.4 per cent, nearly in line with the growth in the various tax bases. Some indirect tax rates were raised in the July package, but receipts were affected by the downturn in collections of VAT and excise taxes in the last few months of the year.

The slower growth in indirect taxes was more than compensated by the surge in direct taxes, which reflected the scale of the provisions regarding personal and corporate incomes and, above all, the success of most of the one-off measures put into effect in 1992. The general tax condonation scheme raised more than 11 trillion lire (including the provisions relating to indirect taxes), compared with the official forecast of 10 trillion. Among the July measures, the special tax on buildings produced 6.9 trillion instead of 6.4 trillion and that on bank and Post Office deposits 5.3 trillion instead of 5.1 trillion; a large part of this tax was paid by households and it is likely to have been regressive. On the other hand, the condonation scheme for property income produced only about 100 billion of the 1,000 billion lire that had been expected, partly because the deadline for payments was extended into 1993. The tax on the compulsory revaluation of corporate property raised 5.1 trillion, compared with a forecast of 6.8 trillion; the shortfall was partly due to the fact that the tax credits taxpayers were allowed to set off against their liabilities were larger than expected.

Self-assessed income tax yielded 3 per cent more than in 1991. This was mainly due to an 11 per cent rise in personal income tax payments generated by an increase in rates and the decision taken in September to increase the size of instalments. By contrast, self-assessed corporate income tax grew by less than 2 per cent, a modest result that can be attributed to the fall in the balance of tax due in respect of the previous year; this was depressed by the decline in corporate income, which caused the tax base to contract by 8 per cent.

Social contributions increased by 5 per cent. Excluding the effects of the condonation scheme, which yielded an extra 3 trillion lire in 1991, the increase was 6.4 per cent, or over one percentage point more than the growth in earnings. The improvement was due to increases in the contribution rates paid by employees and the self-employed and, among employers, in those paid by local authorities and local health units. On the other hand, the contributions paid by private sector employers declined as a result of the rate reductions introduced following the preliminary agreement on labour costs signed by the Government, employers and trade unions in December 1991.

Receipts of contributions from employees were boosted by the increase of 0.6 percentage points in the social security rates applicable in both the public and private sectors from July onwards, as well as by the 0.25 point rate increase introduced in May 1991. Similarly, the growth in contributions from the self-employed was due in part to the one point rise in rates made at the same time, but it also reflected the increase in the minimum contribution enacted in the Finance Law for 1992 and the one point increase in the rates payable by artisans and shopkeepers introduced in July.

The money and financial markets

Monetary policy

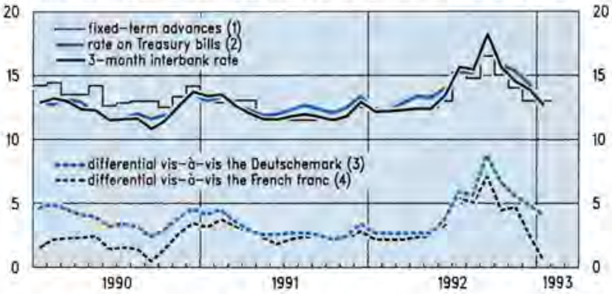
After the suspension of interventions to defend the lira's parity in the EMS Exchange Rate Mechanism, the Bank of Italy pursued a monetary policy designed to avoid fueling inflation while steering interest rates down from the peaks recorded in September to levels more consistent with the depreciation of the currency and the slowdown in economic activity.

To signal its intent of maintaining a stance that would not accommodate upward pressures on prices, in September the Bank announced that the target for monetary expansion for 1993 would be the same as that set for 1992, which was achieved. In October credit institutions were called on to keep the growth in their lira lending within the limits laid down by the central bank as part of a six-month monitoring programme.

A gradual approach was taken in carrying out the subsequent reduction in official interest rates (Figure 20). A large, immediate cut would have generated fear of laxity in monetary management, impeding the restoration of confidence and a lasting reduction in long-term market rates. A revival of inflationary expectations would have jeopardized the July agreement on the cost of labour. The difficulties of placing government securities that usually arise in countries with a large public debt when interest rate expectations are changing require upward rate adjustments to be rapid and downward adjustments to be gradual. The course adopted in Italy differed from that taken in the United Kingdom, where the persistence of a deep recession, the high level of corporate and household indebtedness and the moderate size of the public debt prompted an immediate, large cut in market rates after sterling's crisis and withdrawal from the Exchange Rate Mechanism. Italy's stance reflected a combination of factors: the persistent weakness of the lira; the drop in the prices of government securities on the secondary market, which was particularly sharp at the end of September; the worrying decline in demand for new issues despite the higher yields offered between September and October (Figure 21), accompanied by massive recourse to the Treasury's overdraft with the Bank of Italy to cover the borrowing requirement; and the deterioration in the climate of confidence resulting from the interaction of international and domestic economic factors with difficulties of a political nature.

Figure 20

Short-term interest rates and the differentials vis-à-vis the Deutschemark and the French franc

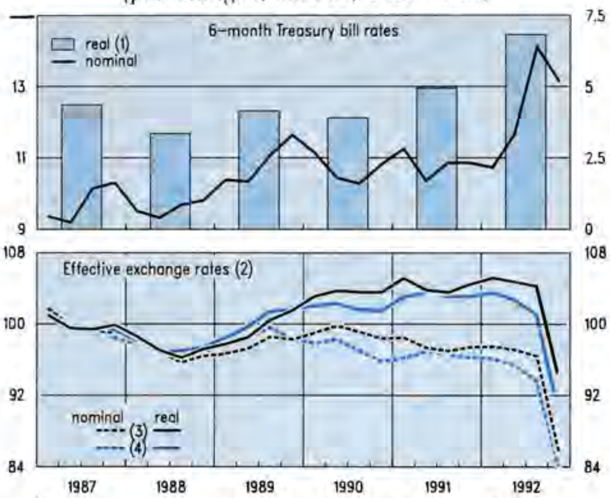


(1) Weighted average of effective rates until April 1991; subsequently, end-of-period data. – (2) Weighted average of compound yields, gross of tax. – (3) Difference between the Italian 3-month interbank rate and the corresponding German rate. – (4) Difference between the Italian 3-month interbank rate and the corresponding French rate.

The reduction in official rates from the emergency levels they had reached at the height of the currency crisis began in October. After a first cut of half a point in the premium on fixed-term advances, the discount rate was lowered by a percentage point three times, so that on 23 December it was back to 12 per cent, its level between the end of 1991 and mid-1992; at the beginning of February it was reduced by another half-point to 11.5 per cent. The decline in money market rates was not uniformly accompanied by reductions in long-term rates. The differential between domestic and foreign long-term interest rates, as well as that between yields on foreign currency issues of the Republic of Italy and issues of other sovereign borrowers and international organizations in the same currencies, remained wider than it had been before the currency crisis.

Figure 21

Nominal and real interest rates and exchange rates
(percentages; indices, 1987=100)



(1) 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, 1987=100. – (2) Indices of the effective exchange rate of the lira. The real exchange rate is based on the producer prices of manufactures. Fourth quarter 1992, estimated. A rise in the indices reflects an appreciation of the lira and a loss of competitiveness for the real exchange rate. – (3) Vis-à-vis the currencies of Italy's 14 leading trading partners. – (4) Vis-à-vis ERM currencies.

These trends confirmed the persistence of unfavourable expectations regarding the country's economic and financial conditions, further proof of which was the weakness of the lira from the end of November on. In recent weeks the gradual but clearly oriented action of the central bank, together with the perception of the efficacy of last summer's agreement on labour costs and of the Government's resolution in implementing the budget measures, has made it possible to restore both short and long-term interest rates to levels which, though still to be consolidated in a situation that remains marked by uncertainty, are substantially in line with and in some cases lower than those recorded before the crisis.

At the end of October the first reduction in the discount rate, from 15 to 14 per cent, reinforced the downward pressure exerted by the decline in rates on Bank of Italy repurchase agreements; reflecting banks' reluctance to dispose of securities at a time when their portfolios were depleted and prices very depressed, the rate on repos was often lower than those on interbank funds, with which it had previously been aligned. The narrowing of the interest rate differentials vis-à-vis France and Germany was accompanied by a strengthening of the lira that testified to an improvement in the climate of confidence compared with the height of the crisis. Towards the end of October the range of central bank instruments for managing liquidity was widened with the introduction of foreign currency swaps. The exemption of non-resident banks' lira deposits from reserve requirements facilitated prompter adjustment of Eurolira rates to domestic rates during periods of monetary tightening; the cost of the reserve requirement on these funds had previously tended to impede flows of capital from the Eurolira market to the domestic money market during periods of rising interest rates.

The slowdown in the growth of the monetary and credit aggregates, the attenuation of tensions in the foreign exchange and financial markets, the limited inflationary impact of the depreciation of the lira and the approval by Parliament of a major part of the budget induced the Bank of Italy to cut the discount rate by another point, to 13 per cent, with effect from 13 November. On that occasion the banks were called upon to lower lending rates more rapidly, also in view of the information that continued to come in pointing to a deterioration in the economic situation; in the preceding weeks lending rates, which had risen quickly and considerably during the summer, had confirmed their downward stickiness, as in other countries.

A fresh wave of instability in the foreign exchange markets resulted in Sweden's decision to abandon its ecu parity and led to the devaluation of the Spanish peseta and Portuguese escudo on 22 November. The new turbulence affected the lira, which until mid-November had traded at around 850 to the Deutschemark. The decline in repo rates came to a halt, while interbank rates and yields on medium and long-term government securities temporarily rose. In December a measure was introduced penalizing banks that resort to fixed-term advances at the end of the day in order to close their clearing positions. The measure discourages the taking of debtor positions that can only be settled with the intervention of the Bank of Italy.

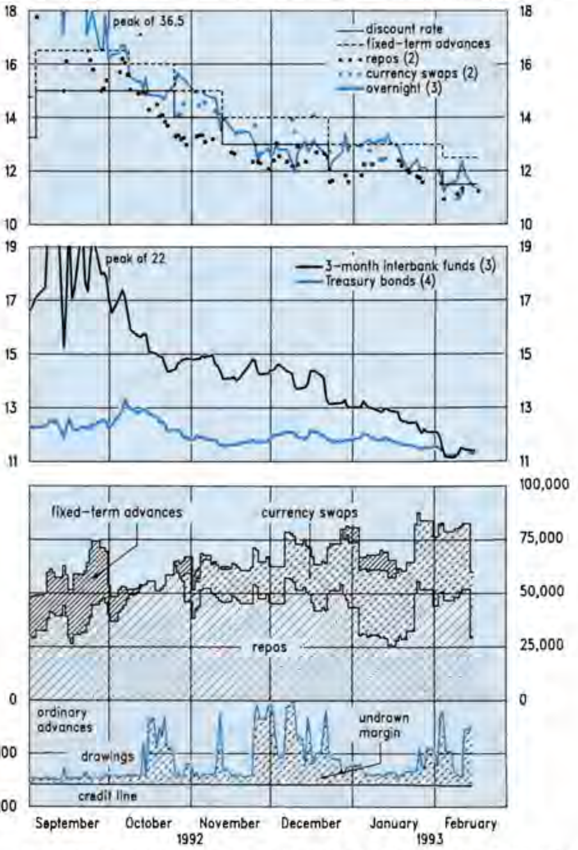
Bank of Italy intervention in the money market

The Bank of Italy's operations in the money market from October to January were designed to steer yields down from the extremely high levels reached during the currency crisis towards values more consistent with basic trends in the economy. The easing of monetary conditions following the suspension of Italy's obligations under the ERM was gradual, and the action was accompanied by a progressive improvement of conditions in the government securities market.

In September the market in government paper continued to be marked by conditions of great uncertainty; demand for new issues remained weak despite rising yields.

Figure 1

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



(1) Daily data. Interest rates in per cent; stocks in billions of lire. – (2) Marginal tender rate. – (3) Weighted average of bid-ask prices. – (4) After-tax secondary market yield on Treasury bonds with residual maturity of more than 9 years.

Monetary conditions were relaxed in October. On the 8th of the month the rate on fixed-term advances was lowered by half a percentage point to 16 per cent; on the 23rd, the discount rate was reduced by one point to 14 per cent (Figure 1). The rate on repurchase agreements and the overnight rate fell by 3.5 and 6.6 points to monthly averages of 14.6 and 15.5 per cent, respectively. Monetary base creation took place primarily through the new instrument of foreign currency swaps (13.1 trillion lire), first offered on 27 October, which partially offset the monetary destruction resulting from the repayment of fixed-term advances (16.3 trillion lire). At the end of the month the banking system's total indebtedness to the central bank amounted to 66.8 trillion lire. The Bank's net outright purchases of government securities on the open market exceeded 5.5 trillion lire in the month. The reduction in interest rates on interbank funds was promptly transmitted to government paper, with the average net tender yield at the end-month Treasury bill auction falling to 12.9 per cent, compared with 15.7 per cent at the end of September, thanks in part to exceptionally heavy demand (63 trillion lire). After bottoming out on 7 October, the prices of Treasury bonds on the secondary market staged a sharp recovery, reversing their summer downtrend. In the second half of October demand for medium and long-term securities at auction also returned to high levels. The gradual easing of liquidity conditions did not weaken the lira, which appreciated by 2 per cent in the course of the month against the currencies of Italy's fourteen principal trading partners (Figure 2). On 23 October the Bank of Italy announced that it would monitor the expansion of lending by the banks and special credit institutions until March; at the same time, the reserve requirement against interbank lira fund-raising abroad was lifted.

On 12 November the Bank again lowered the discount rate by 1 percentage point, to 13 per cent. The repo and overnight rates declined to 12.9 and 13.9 per cent, respectively, on average for the month. The reduction in very short-term rates had a negligible effect on the rate on 3-month funds, which remained roughly unchanged at 14.5 per cent. The growth of bank deposits in October resulted in a sharp rise in the reserve requirement (4.7 trillion lire). The central bank provided liquidity to the system by means of currency swaps worth *some 4 trillion lire and open market operations worth 7.1 trillion, including 3 trillion of outright purchases. Demand for government paper at issue was heavy across the maturity spectrum; the average after-tax yield on Treasury bills declined by half a percentage point to 13.2 per cent for the month, and the decline in long-term rates continued. On the secondary market the average net yield on 10-year bonds fell to 11.8 per cent from 12.6 per cent in October. In the last ten days of November the re-emergence of tensions within the EMS, culminating in realignment of the peseta and the escudo, resulted in the renewed weakening of the lira.*

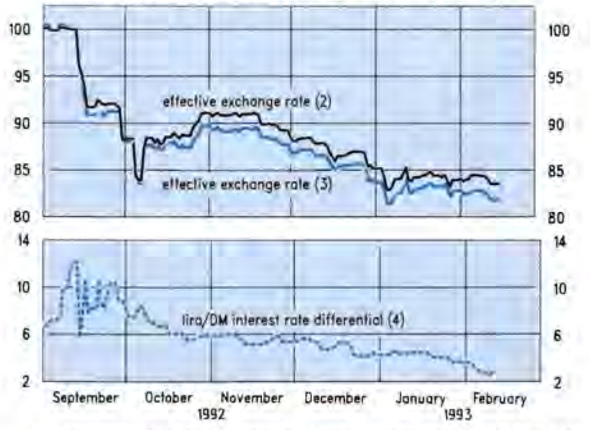
During the first half of December the Bank of Italy calibrated its liquidity management so as to maintain money market rates at about the level prevailing at the end of November. With the passage of the Finance Law, on 22 December the discount rate was lowered by one percentage point to 12 per cent. The overnight and 3-month rates averaged 12.7 and 13.9 per cent, respectively, for the month. At the year's final auction the tender rate on Treasury bills declined by more than a point compared with the previous issue, reflecting not only the reduction in official interest rates but also strong demand, which exceeded issue volume by 13 trillion lire. However, the decline in yields barely affected the longer term segment: on the secondary market 10-year Treasury bonds offered net yields of around 11.8 per cent at the end of the month, about the same as in November. The total indebtedness of the banking system with the Bank of Italy rose to 84 trillion lire at the end of the year, 31.6 trillion of it in foreign currency. On the 21st of the month the bank enacted several modifications concerning fixed-term advances. Their maximum maturity was extended, the possibility of renewal was introduced, and a premium was set on advances granted at the end of the business day, equal to the fee for paper-based giro transfers.

In the first few days of January instability in the foreign exchange markets weakened the lira. Part of the decline was later recouped, thanks to the success of the Treasury's DM-denominated bond issue and the granting of a Community loan to Italy, but the lira weakened again towards the end of the month. Three-month interbank rate came into line with overnight rates, both averaging 12.7 per cent for the month. Government securities issues were well received, and the average net yield on Treasury bills at the end-month auction fell to 10.5 per cent. Prices on the secondary market, after a sharp decline at the start of the month, benefited from expectations of lower interest rates in Germany and the abatement of inflation. At the end of the month the yield on 10-year bonds was 11.5 per cent, 30 basis points lower than at the end of December.

On 3 February the discount rate was cut to 11.5 per cent, and the impulse was promptly transmitted throughout the interest rate structure. The average overnight and 3-month interbank rates dropped to 11.8 and 11.5 per cent, respectively, during the first two weeks of the month. The short-term interest rate differential vis-à-vis the Deutschemark narrowed to less than three percentage points, about the same as at the end of May 1992. The secondary market yield on 10-year Treasury bonds fell by some 30 basis points in the first week of the month but then, owing to market tensions, climbed back to the end-January level. The reduction of the compulsory reserve ratio to 17.5 per cent in mid-month released 27 trillion lire of funds. The Bank of Italy countered the expansive impact on the monetary base by not rolling over an equivalent amount of repos that had been arranged to fall due in mid-February. The banking system's securities liabilities with the Bank declined to 29.5 trillion lire from 51.9 trillion at the end of January.

Figure 2

Effective exchange rate of the lira and interest rate differential with the DM (1)



(1) Daily data. – (2) Vis-à-vis the other ERM currencies (index, 11.9.92 = 100). – (3) Vis-à-vis the currencies of Italy's 14 leading trading partners (index, 11.9.92 = 100). – (4) Interbank rates on 3-month funds.

The decision on 22 December to reduce the discount rate to 12 per cent, the level at which it had stood during the first half of the year, was made possible by the passage of the Finance Law and the flow of data showing that inflation and the expansion of the monetary and credit aggregates remained moderate.

Table 11

Monetary base

(changes in billions of lire) (1)

	1991		1992 (2)	
	Oct.-Dec.	Year	Oct.-Dec. (2)	Year
Sources				
Foreign sector ..	-12,717	-8,674	26,403	-32,590
Foreign currency swaps	–	–	*31,588*	*31,588*
Treasury	417	-9,458	-6,050	-2,654
Borrowing requirement ..	*48,379*	*152,322*	*52,637*	*163,123*
(excluding settlements of past debts)	*48,341*	*152,249*	*52,637*	*163,091*
Outstanding securities excluding BI ..	*-35,399*	*-137,532*	*-41,170*	*-147,710*
PO deposits and foreign loans (3)	*-12,563*	*-24,248*	*-17,517*	*-18,066*
Open market	19,571	27,172	4,826	42,130
Refinancing of banks	6,395	2,664	-17,136	172
Other sectors ...	1,714	-583	4,062	1,413
Total ...	**15,380**	**11,121**	**12,105**	**8,471**
Uses				
Currency in circulation	7,253	6,906	7,170	9,252
Bank reserves ..	8,127	4,216	4,935	-781
Deposits with BI	6,463	3,646	3,382	114
Memorandum item: compulsory reserves	5,934	3,424	4,863	1,012
Other items (4)	1,664	570	1,553	-895

(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.

Monetary conditions, which had tightened somewhat at the beginning of January, when the speculative attacks on the French franc had repercussions on the lira, eased gradually in the course of the month. Towards the end of January the Bank of Italy ascertained that the rate of growth in lira lending had remained lower than that indicated in the central bank's monitoring programme of 23 October in December as well as November: banks' lira lending to residents, including that of their foreign branches and the special credit sections they had incorporated, grew by 1.5 per cent in November and by 5.1 per cent in December compared with the reference base, as against monitoring ceilings of respectively 3 and 8 per cent; for the special credit institutions, the growth with respect to the reference base in the same two months was 0.8 and 1.2 per cent, compared with targets of respectively 2 and 3 per cent. The slowdown in credit expansion, under way since April, was accentuated by the rise in interest rates from the beginning of the summer and by the deterioration in cyclical conditions. Accordingly, it was decided to cease monitoring the growth in the medium and long-term lending of the special credit institutions and banks' former special credit sections.

Table 12

Monetary variables (1)

	1991 Dec.	1992 (2) Dec.
Bank reserves (3)	8.9	4.2
Monetary base (3)	9.7	7.1
Bank deposits	7.7	4.2
Money supply (M2)	8.3	5.9

(1) Percentage changes on year-earlier period. 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 month specified. – (2) Provisional. – (3) Corrected for the change in the average compulsory reserve ratio.

Conditions in the money and financial markets continued to ease in February, partly owing to the further half-point cut in the discount rate. The decline in rates was favoured not only by the fact that inflation remained moderate, but also by the signs of an easing in rates in the other main European countries.

In February the authorities made a sizable reduction in the reserve requirements, which contribute to the large spread between bank lending and deposit rates. Control of the measure's effects on liquidity is facilitated today by the moderate growth of the money supply and the large indebtedness of the banking system to the Bank of Italy. The measure marks an important step towards lessening the competitive handicap on Italian banks in international markets imposed by the higher reserve requirements; it also takes account of the need gradually to subject all credit institutions to uniform treatment, in conformity with the legislative decree transposing the Second Banking Coordination Directive into Italian law approved by Parliament in December.

In 1992 the monetary base expanded by 8.5 trillion lire, or 7.1 per cent, as against 9.7 per cent in 1991; the deceleration was more pronounced for bank reserves, whose annual rate of growth diminished from 8.9 to 4.2 per cent (Tables 11 and 12).

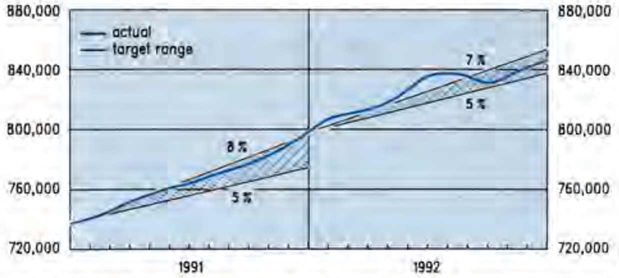
In the fourth quarter there was a net inflow of foreign exchange of 26.4 trillion lire in connection with foreign currency swaps; for the year as a whole the foreign sector destroyed more than 32 trillion of monetary base, almost four times the corresponding amount in 1991.

Direct central bank financing of the Treasury resulted in monetary base destruction for the third consecutive year. From more than 46 trillion lire in 1981, monetary base creation via the Treasury's overdraft with the Bank of Italy and the central bank's net purchases of government securities at issue declined steadily. In 1990 the effect of the central bank's operations with the Treasury changed sign, with monetary base destruction of 1.4 trillion in 1990, 9.5 trillion in 1991 and 2.7 trillion in 1992 despite the continuous growth in the Treasury's borrowing requirement. Last year around 90 per cent of the borrowing requirement was financed with net issues in the market, as in 1991; the contribution of the other sources of cover diminished by about one quarter compared with 1991. The Treasury drew around 7.7 trillion lire on its overdraft facility with the Bank of Italy, the largest amount since 1988, while the Bank allowed some 10 trillion worth of government securities in its portfolio to mature without purchasing equivalent paper at issue.

Figure 22

Money supply (M2) (1)

(target range and actual; billions of lire)



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

Given the net destruction of monetary base through the foreign sector, the planned expansion in monetary base was effected partly through foreign currency swaps but mainly through open market operations: the latter amounted to more than 42 trillion lire last year, compared with 27.2 trillion in 1991. Taking account of central bank advances, foreign currency swaps and repos, the banking system's indebtedness to the Bank of Italy stood at about 84 trillion lire at the end of the year. Net outright purchases of government securities by the Bank of Italy, aimed at curbing the fall in prices, amounted to nearly 24 trillion, compared with 9.7 trillion in 1991 and a pattern of steadily declining net outright sales in the eighties.

The money supply developed very irregularly during 1992. In the first half M2 continued to grow at the rapid pace recorded in late 1991; after remaining within the target range for much of that year, the rate accelerated in the fourth quarter as investors shifted into more liquid financial assets owing to the uncertainty surrounding the public finances and interest rates. In the second half M2 decelerated, approaching the lower limit of the target range in September and ending the year at the centre of the range (Figure 22). The slowdown, triggered by the rise in interest rates initiated in June to counter the pressure on the lira, also reflected the concern generated by the imposition of a wealth tax on bank

The revision of the compulsory reserve requirement

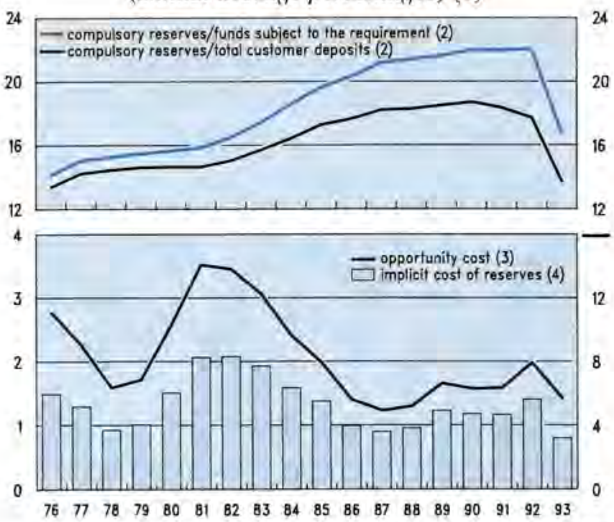
On 5 February, the Minister of the Treasury issued an urgent decree modifying the compulsory reserve requirement. The new reserve ratios will be 10 per cent for certificates of deposit with a maturity of at least 18 months and 17.5 per cent for other deposits. The interest rate paid on the compulsory deposits is unchanged, and banks' capital may still be deducted. Before the revision, the reserve ratio was a flat 22.5 per cent of deposit liabilities; if the ratio of reserves to the reference aggregate was below that level, banks were required to deposit 25 per cent of their marginal fund-raising in their reserve account with the central bank.

By reducing the cost of the reserves, the measure was intended to foster the narrowing of the spread between banks' deposit and lending rates in a slack economy marked by a slowdown in the growth of monetary and credit aggregates. Moreover, in line with the EC's Second Banking Directive, transposed into Italian law by Legislative Decree 481 of 14 December 1992, the reserve requirement is now applied to the "monetary" liabilities incurred by credit institutions, and regardless of the distinction between banks and special credit institutions. The application of the new rules to funds previously exempt from the reserve requirement will commence on a date to be established in a new Treasury decree.

The release of reserves following the reduction of the reserve ratio is planned to take place in two phases. In February, the ratio was lowered to 17.5 per cent, thereby returning approximately 27 trillion lire to the banks net of the new reserve deposits of about 8 trillion lire they had to make following the increase in deposits in January. The compulsory reserves fell to 113 trillion lire in the February-March reserve period, about 19 trillion lire less than in January-February. The consequent expansion of liquidity was offset by not renewing an equivalent amount of repurchase agreements arranged to fall due in concomitance with the freeing of the reserves; the liquidity shortages of individual banks were easily made good in the interbank market. The operation was also facilitated by raising the share of compulsory reserves that may be mobilized for the reserve period beginning on 15 February.

The changes will be completed in March with the further reduction to 10 per cent of the reserve ratio on

The average reserve ratio and the cost of holding reserves
(annual average percentages) (1)



(1) The 1993 figure is an estimate. – (2) The difference between funds subject to the requirement and total customer deposits is due to the deduction of capital and reserves. – (3) The difference between the average gross yield of Treasury bills and the average interest rate on compulsory reserve deposits. – (4) Calculated by multiplying the opportunity cost by the ratio of compulsory reserves to total customer deposits.

deposits and, subsequently, the worsening in the economic situation and the fears that arose following the suspension of interventions to defend the lira in the EMS. These fears reached a peak at the beginning of October: the spread of totally unfounded rumours concerning the introduction of measures that would penalize deposits caused such alarm that the Bank of Italy considered it necessary to send banks a letter urging them to take steps to reassure customers.

Together with certificates of deposit, notes and coin were one of the fastest growing components of the money supply in the final part of the year. Reflecting widespread uncertainty, the notes and coin held by the public increased markedly in *certificates of deposit with maturity of at least 18 months, releasing another 7 trillion lire. The overall effect, once the changes are fully introduced, will thus be to free approximately 34 trillion lire from the compulsory reserves, reducing the requirement's incidence on banks' fund-raising to 14 per cent, four points less than the average for 1992 and in line with that of the mid-seventies (see figure). The decline reinforces the downward trend in the average reserve ratio that began in 1991 with the exemption of banks' customer repos and foreign currency fund-raising and continued in 1992 as a result of a large revaluation of banks' capital.*

When fully in effect, the revision will bring the cost of reserves, calculated using the gross yield of Treasury bills at the mid-February auction as a reference rate, sharply down from 1.4 to 0.8 per cent of deposits. However, despite being calculated with reference to the lowest-yielding alternative assets, this is still higher than the comparable cost in other leading countries (see table); these have also lowered their compulsory reserve ratios recently, reducing the cost of reserves to an estimated 0.1 per cent of deposits in the United States and France and 0.3 per cent in Germany.

The elimination of this severe competitive handicap for banks operating in Italy is contingent not only on lower domestic interest rates but also on Parliamentary approval of the bill reforming the Treasury overdraft facility, which the Government recently resubmitted. The reform bill also proposes transferring decision-making powers for the compulsory reserve from the Interministerial Committee for Credit and Savings to the Bank of Italy, empowering the central bank to set the reserve ratio up to a fixed ceiling, modify the interest rate paid on the reserves and determine the percentage of the reserves that may be mobilized.

The compulsory reserve requirement in selected industrial countries

(per cent)

	Reserve ratio			Average reserve ratio (1)	Cost of reserves (2)
	Current accounts	Savings accounts	Certificates of deposit		
United States	3-10 (3)	–	–	3.0	0.1
Germany	6.6-9.9-12.1 (4)	2.0	2.0	3.6	0.3
France	1.0	1.0	0.5	0.9	0.1
Italy	17.5	17.5	17.5-10.0	13.7	0.8

(1) Banks in the United States, Germany and France may deduct cash on hand in calculating the minimum reserve to be deposited with the central bank. – (2) Calculated by multiplying the average reserve ratio by the yield differential between the interbank rate (for Italy, the yield on Treasury bills) and the interest rate on the compulsory reserves. – (3) The three per cent ratio is applied to deposits up to a total of $46.8 million. – (4) The ratios are applied respectively to the following classes of deposits: up to DM 10 million, 10 to 100 million, and more than 100 million.

September and October and rose to more than 85 trillion lire in December, giving rise to a year-on-year increase of 11.8 per cent, compared with one of 10.6 per cent in 1991. The ratio of currency to deposits rose from 10.5 to 11.3 per cent in 1992.

Whereas the share of M2 in total financial assets diminished, that of more liquid assets rose from 66.8 to 68.7 per cent in the twelve months ending in December, owing to the public's increased preference for shorter-dated government paper and bank repos. After slowing down in the first nine months of the year, the public's purchases of government securities picked up in the last quarter; the improved climate of confidence and the introduction of three-year Treasury bonds resulted in the public's purchases of medium and long-term securities increasing as well. The financial assets of the non-state sector grew by 7.2 per cent in 1992, as against 11.1 per cent in 1991 (Table 13).

Table 13

Financial flows

(percentage changes) (1)

	1990 Dec.	1991 Dec.	1992 Dec.
Total credit	**14.6**	**12.5**	**9.3**
Domestic finance to the non-state sector	*15.5*	*13.8*	*6.9*
from: Banks	*17.3*	*15.0*	*8.2*
Special credit institutions	*16.2*	*12.1*	*6.2*
Bonds	*−13.2*	*9.5*	*−10.8*
Domestic finance to the state sector	*11.3*	*11.8*	*11.7*
Foreign finance	*40.0*	*11.8*	*2.8*
Financial assets (2)	**11.9**	**11.1**	**7.2**

(1) From the year-earlier period; end-of-period data. – (2) Financial assets of the non-state sector, excluding direct holdings of shares.

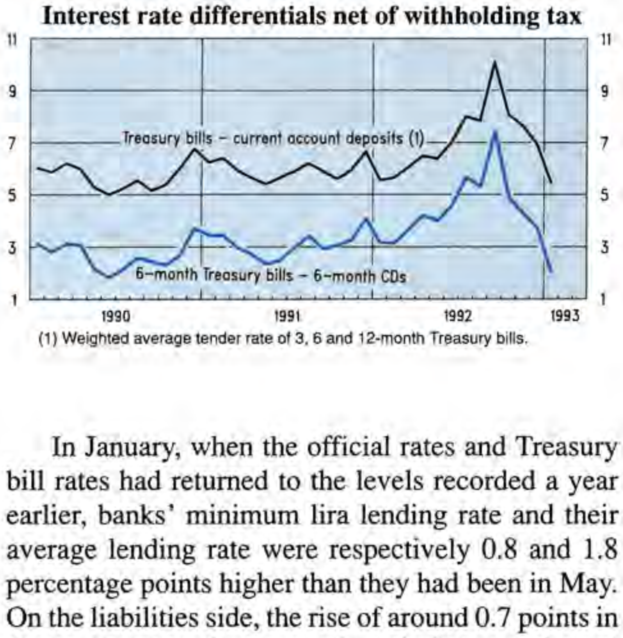
The expansion of total credit slowed less than that of financial assets, partly reflecting the growing imbalance in the external accounts. The rate of growth in the former fell from 12.5 per cent in 1991 to 9.3 per cent last year as a result of a steady increase in domestic credit to the state sector and a pronounced deceleration in both domestic lending to the non-state sector and borrowing abroad. Both supply and demand-side factors contributed to the rate of increase in domestic finance to the non-state sector falling to 6.9 per cent, or half that recorded in 1991; the share of the banking system remained broadly unchanged at around 60 per cent. Total foreign finance increased by only 2.8 per cent, compared with 11.8 per cent in 1991.

The activity of credit intermediaries

During the summer bank lending rates were more sensitive to the rise in official and money market rates than in the past; subsequently, they showed their customary downward stickiness. The widening of the spread between lending and deposit rates, a pattern observed in earlier periods of monetary tightening, was partly attributable to the compulsory reserves, whose opportunity cost increases when yields rise. Banks' cautious behaviour, which to some extent was a normal reaction to the developments in the money markets and the worsening of cyclical conditions, was reinforced by concern about the increased riskiness of assets and possible capital losses on securities, which in the latter case proved excessive thanks to the upturn in prices at the end of the year.

Figure 23

Interest rate differentials net of withholding tax



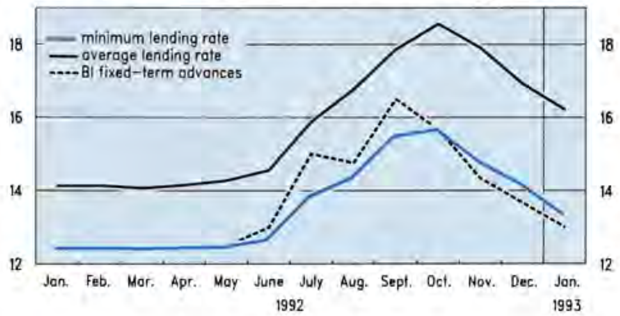
(1) Weighted average tender rate of 3, 6 and 12-month Treasury bills.

In January, when the official rates and Treasury bill rates had returned to the levels recorded a year earlier, banks' minimum lira lending rate and their average lending rate were respectively 0.8 and 1.8 percentage points higher than they had been in May. On the liabilities side, the rise of around 0.7 points in the average rate of return on deposits between the end of May and the end of October was almost entirely reversed in January, while in the same month the rate on CDs settled at a level 1.1 points higher than at the end of May. The after-tax differential between the rates on Treasury bills and 6-month CDs narrowed from more than 7 points in September to around 2 points in January (Figure 23). The spread between the minimum lending rate and the maximum deposit rate grew narrower than it had been before the currency crisis; that between the average lending rate and the average deposit rate, inclusive of the rates on CDs, which had widened by around 3 points between June and September, narrowed by 1.9 points between

October and January. The greater diversity of conditions applied to customers is confirmed, on the assets side, by the wider spread between the average and minimum lending rates (Figure 24), as well as by the behaviour of the top rate, which is still around 20 per cent. The decline, from 37 to 17 per cent, in the share of loans disbursed at rates lower than the ABI top rate in the second half of 1992 suggests that the rapid worsening in the economic situation induced banks to review customers' creditworthiness (Figure 25).

Figure 24

Official interest rates and bank lending rates



The rise in interest rates and the wider spread between lending and deposit rates from the summer onwards, the measures adopted in October to curb the growth in bank lending, and the economic downturn and deceleration in prices were reflected in a pronounced slowdown in bank loans and deposits in the closing months of the year.

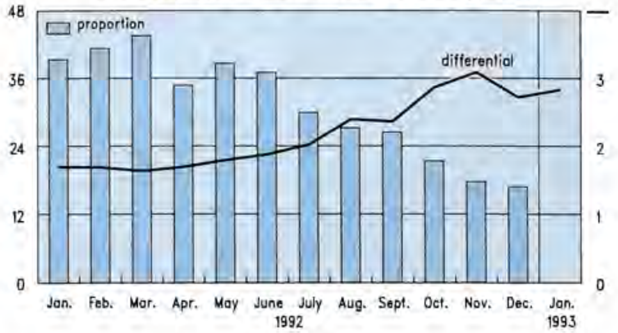
In the fourth quarter of 1992 banks, including their foreign branches, and special credit institutions disbursed loans totaling 21 trillion lire, compared with 56 trillion in the same period a year earlier. Medium and long-term credit slowed down more sharply than bank lending; adjusted for exchange rate movements, the twelve-month rate of growth in real estate lending fell from 20 to 12 per cent between August and December.

The slowdown in lending by banks' domestic and foreign branches was most pronounced for lira loans. After picking up in August and September, the growth in such lending slowed in October and diminished further in November and December, when it grew less than provided for in the central bank monitoring programme. For the year as a whole lira lending expanded by 4.8 per cent, as against 14.5 per cent in 1991. Adjusted for exchange rate movements, foreign currency lending grew by around 30 per cent in November and December, compared with the last two months of 1991. This rapid growth may have been due not only to the substitution effects of the monitoring procedure but also to borrowers' diminished expectations of a depreciation of the lira, coupled with the relatively low cost of foreign currency borrowing. For the year as a whole and adjusted for exchange rate movements, the growth in foreign currency loans slightly outpaced that in lira loans. The overall growth in lending amounted to 8.2 per cent.

Every category of borrower contributed to the slower growth in bank lending, but the borrowing of manufacturing industry, private holding companies and leasing and factoring firms slowed the most; in particular, the growth in bank lending to manufacturing firms approached a five-year low.

Figure 25

Proportion of loans granted at the ABI prime rate or less and the differential between the average and minimum lending rate



The proportion of lira loans classified as bad and doubtful debts rose from 6.9 to 7.7 per cent between July and November, with 6.2 trillion lire of new loans added (compared with around 7 trillion in the same period in 1991). Cyclical downturns usually have a delayed impact on the quality of bank loans: the proportion of bad and doubtful debts will probably rise further in the months ahead, considering, inter alia, the seriousness of the recession and the specific problems of certain branches.

Interest rates before and after the currency crisis

The behaviour of interest rates after the currency crisis of the summer of 1992 contrasted in several respects with empirical regularities found under more normal conditions: money market rates were sticky at times in adjusting to downward movements in the official interest rates; the reduction in short-term rates was transmitted with a lag to the medium and long-term segment; and bank rates adjusted more rapidly when rates were rising, but came down with lags similar to those seen elsewhere and previously observed in Italy.

1. The official rates and the yield curve

During the currency crisis the overnight rate rose to a peak of 36.6 per cent on 16 September and the 3-month interbank rate to 22 per cent on 11 September. Money market rates rose above the official rates because the Bank of Italy severely rationed the supply of fixed-term advances to the banks. A similar phenomenon had occurred only once before, during the monetary tightening aimed at supporting the lira within the EMS at the end of 1990, and on that occasion the cross-over was much smaller.

During the crisis the rate on Bank of Italy repurchase agreements also rose above the official rates, reflecting expectations of a rationing of central bank lending of last resort. From the end of June, however, the repo rate was well below the rates on interbank funds. The differential vis-à-vis the overnight rate grew very wide to around 7 percentage points at the height of the crisis and remained large during certain phases of the subsequent period of declining rates: between the last ten days of October and the first ten days of November it averaged just under 2 points (see figure on next page). The widening of the differential reflected the reluctance of the banking system to reduce its securities portfolio, in order to avoid capital losses on sales at a time of falling prices and owing to the higher implicit cost of immobilizing securities arising from the uncertainty about future price movements.

From the beginning of October to the first ten days of November interbank rates were between the discount rate and the rate on fixed-term advances. The one-point reduction in the official rates on 12 November pushed down the overnight rate but not the rates on longer-term interbank funds. The yield curve on the interbank market took on a steep positive slope; the difference between the rates on 3-month and overnight funds widened to around 2 percentage points at the end of November and remained larger than 1 point until the second ten days of December (see figure). This trend was attributable to the uncertainty regarding the performance of the lira, fears of renewed inflation and an expected tightening of liquidity in conjunction with end-of-year technical deadlines. The spread between the 3-month and overnight rates only narrowed after the discount rate was lowered to 12 per cent on 22 December.

The long-run expectations regarding inflation and the increased risk premium on government securities held up the decline in yields on long-term maturities to the levels recorded before the currency crisis. In January the average net yield on Treasury bonds with a residual maturity of more than nine years was still 0.8 percentage points higher than it had been last May (see figure); in the first twenty days of February, partly in response to the half-point cut in the discount rate, it fell by a further 36 basis points to 11.4 per cent. The yield differentials vis-à-vis Germany and France narrowed but did not return to their former levels. That between the ecu bonds issued by the Republic of Italy and the comparable securities of the French Treasury was down from the peak of around 1 percentage point recorded at the start of October but still notably wider than in May, when it had amounted to less than 10 basis points (see figure); during the first twenty days of February it narrowed slightly from 50 to 43 basis points.

2. Bank interest rates

In the four months from June to September, during which the rate on fixed-term advances rose by 4 points and the overnight rate by 6.4 points, the minimum and average bank rates for lira loans increased by respectively 3.4 and 4.3 points (see table). The spread between average lending and deposit rates widened by more than 3 points with reference both to traditional deposits (from 7.4 to 10.5 points) and to deposits including CDs (from 6.5 to 9.7 points). Bank rates adjusted more slowly during the subsequent period of falling interest rates. From the end of the summer to last January, a period that saw the rate on fixed-term *advances come down by 3.5 points and the overnight rate by 6.8 points, the average and minimum bank lending rates fell by 2.6 points. The spread between average lending and deposit rates narrowed by 1.9 points when CDs are taken into account; excluding CDs, it narrowed by only 1.4 points. In the first ten days of February, with the further reduction in official rates, the minimum lending rate fell by 48 basis points and the average lending rate by 22.*

Comparisons with the past provide useful information when the intervening changes are taken into due account. In March 1981, with the economy in full recession and inflationary tensions running high, the discount rate was raised by 2.5 points. The average lending rate rose by only 1.5 points within the space of two months, remaining stationary in the next two months with a widening of the spread vis-à-vis the minimum lending rate. The spread between lending and deposit rates only widened temporarily by 1 point. In 1986, when the economy was expanding and inflation coming down, the discount rate was reduced three times by 1 point over a period of three months (see figure). In the four-month period commencing with the downturn in the discount rate, the average lending rate fell by only 2.2 points and the spread between lending and deposit rates remained virtually unchanged.

In 1992 the lags in the adjustment of bank lending rates during the period of declining official rates were therefore broadly similar to the pattern observed in the past, whereas during the period of rising official rates the adjustment was more rapid. The sensitivity of bank lending rates to the rise in official rates, their slowness in coming down and the resulting wider spread vis-à-vis deposit rates are partly ascribable to the perception of greater risk and to the uncertainty with which the banks had to contend in both lending and fund-raising.

The stickiness of lending rates in adjusting to movements in official rates has also been observed in other countries. In Germany, the reductions in the lombard rate in 1987 were not followed by corresponding reductions in lending rates, even in those for large loans (see figure). Towards the end of 1988 and in 1989 the reaction of bank rates to the rise in the lombard rate was sluggish: the spread narrowed by an average of half a point between 1988 and 1989. In the United Kingdom the spread between the prime rate and the 3-month interbank rate showed a negative correlation with the variation in the level of interest rates when they were coming down – in the autumn of 1987, at the beginning of 1991 and towards the end of 1992 – and when they were rising, particularly in the autumn of 1989 and in the months from June to August 1992 (see figure).

Changes in the official interest rates and bank rates

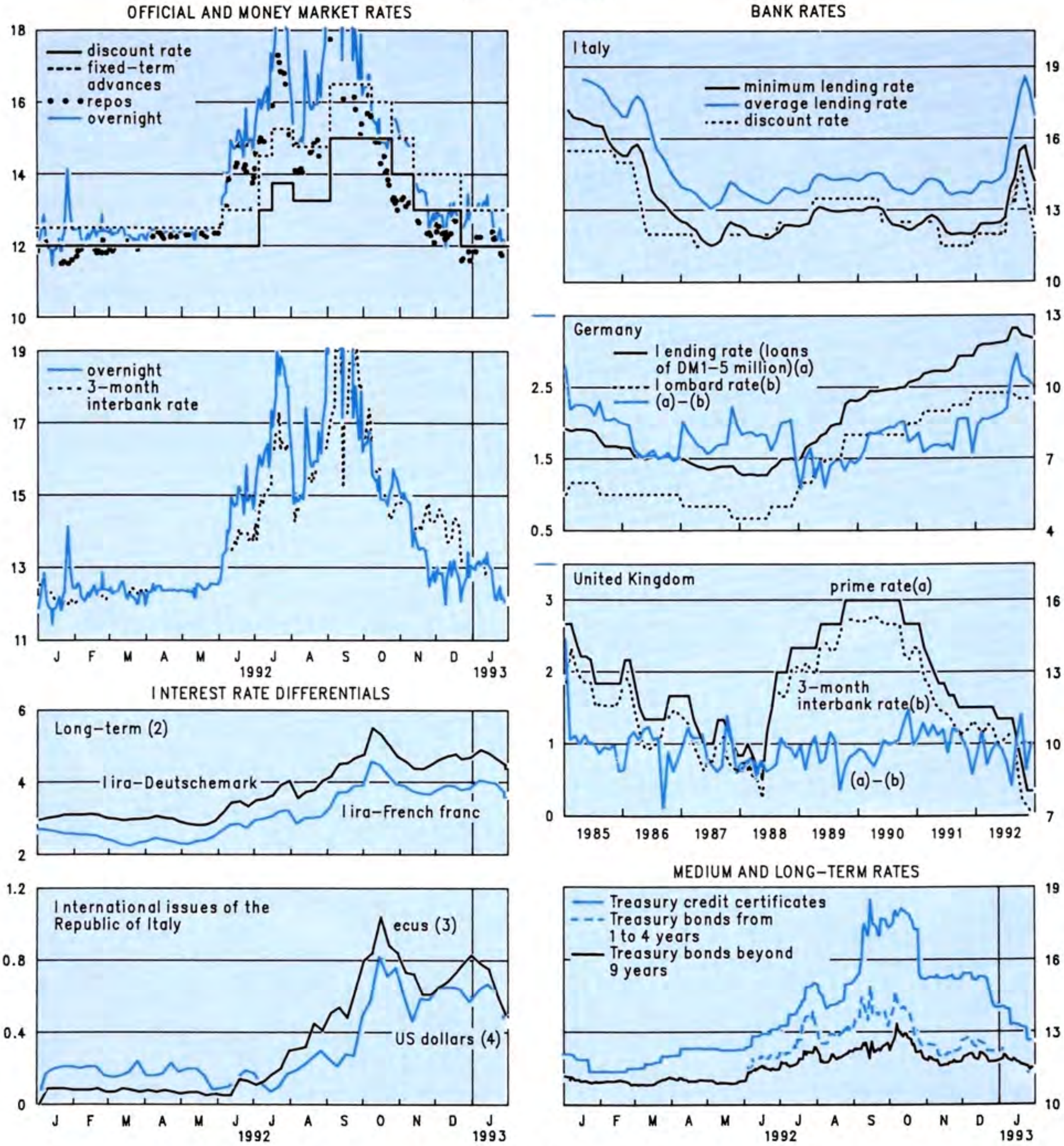
(percentages) (1)

	Rate on fixed-term advances	Average lending rate	Minimum lending rate	Spread: lending/ deposit rate	Discount rate	Average lending rate (2)	Minimum lending rate	Spread: lending/ deposit rate (3)
	phase of rises from June 1992				*phase of rises from March 1981*			
In the month	0.50	0.8	0.7	0.3	2.50	0.3	0.2	0.1
In the first subsequent month	2.25	1.7	1.3	1.2	–	1.2	0.9	0.8
In the second subsequent month	–0.50	–	0.2	0.8	–	–	0.2	0.1
In the third subsequent month	1.75	1.8	1.2	0.9	–	0.1	–	–0.4
Cumulative increase	4	4.3	3.4	3.2	2.50	1.6	1.3	0.6
	phase of reductions from October 1992				*phase of reductions from March 1986*			
In the month	–1.50	–0.2	–0.5	0.3	–1	–0.1	–	0.2
In the first subsequent month	–1	–1	–1	–0.7	–1	–0.3	–0.5	0.1
In the second subsequent month	–1	–1	–0.6	–0.9	–1	–0.7	–0.8	0.1
In the third subsequent month	–	–0.4	–0.5	–0.6	–	–1.1	–0.9	–0.1
Cumulative reduction	–3.50	–2.6	–2.6	–1.9	–3	–2.2	–2.2	0.3

(1) End-of-month data except for the spread, which is calculated as a monthly average. The spread is the difference between the average rate on loans and the average rate on deposits. The latter is partly estimated to include the yield on certificates of deposit. – (2) For 1981, the normal lending rate, defined as the rate most commonly applied to current account overdrafts. – (3) For 1981, the normal rate on deposits, defined as the rate most commonly applied to current account deposits.

Interest rates

(percentages) (1)



(1) Daily data for official rates and money market rates; weekly data for the differentials between the yields on the international issues of the Republic of Italy and those of other sovereign borrowers and international organizations; monthly data for the remaining variables. – (2) For Italy, net yield to maturity on Treasury bonds with a residual life of more than nine years; for Germany, yield to maturity on ten-year Federal Government issues; for France, yield to maturity on Treasury securities with a residual life of more than seven years. – (3) Differential between the yields to maturity on the Republic of Italy's ecu loan due 18 April 2000 and the French Treasury's ecu loan due 25 April 2000. – (4) Differential between the yields to maturity on the Republic of Italy's dollar loan due 8 February 2001 and the World Bank's issue due 1 March 2001.

The banks' securities portfolios expanded by 21.3 trillion lire in the last quarter of the year, compared with 39 trillion in the last quarter of 1991. The increase occurred mainly in December and was due to the non-renewal of a sizable volume of customer repos.

The small increase in non-CD deposit rates during the period of rising interest rates was partly responsbile for the slowdown in the annual rate of growth of deposits from 8.5 per cent in 1991 to 3 per cent last year, on the basis of average monthly data; current accounts fell by 1.6 per cent. The banks responded to the slowdown in deposits by raising the rates on CDs, which recorded twelve-month growth of more than 30 per cent after the summer; on the basis of average monthly data, the share of CDs in total deposits rose from 22 to 27.8 per cent in the year to December. Three quarters of the net flows in October and November consisted of three-month certificates. Banks also made larger use of repos with customers, which amounted to almost 54 trillion in the first eleven months of 1992, up from 46.1 trillion a year earlier.

The special credit institutions' net sales of straight bonds totaled 10.2 trillion lire in the first eleven months of 1992, some 3 trillion less than a year earlier; in the same period their net sales of their own CDs amounted to 2.3 trillion lire, less than half the figure recorded a year earlier.

The banks' net foreign indebtedness fell by nearly 24 trillion lire in September and continued to fall in the next two months. In December the flow of bank capital changed sign and the banks' net foreign debt grew by around 5.3 trillion. In the first eleven months of the year the net foreign liabilities of foreign banks' Italian branches grew by around 5.7 trillion lire despite falling by more than 6 trillion in September; the corresponding figure for 1991 was nearly 4.2 trillion.

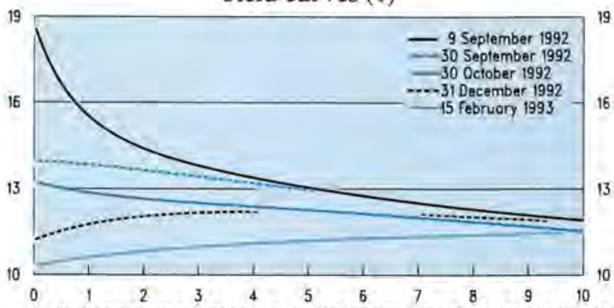
In the first nine months of the year the widening of the spread between bank lending and deposit rates helped to boost net interest income by 16.3 per cent compared with a year earlier; a decline in other income limited the growth in gross income to 4.5 per cent. Given a modest slowdown in operating expenses, mainly attributable to staff costs, banks' operating profits in the first three quarters of the year were 10 per cent lower than in the corresponding period of 1991.

The financial market

The persistence of a low level of confidence, reflected in the recurrent outbreaks of turbulence in the foreign exchange markets, depressed the prices of medium and long-term government paper. After falling sharply at the end of September, they recovered between the second week of October and mid-November but declined again in December even though short-term rates continued to come down. The average net yield on Treasury bonds with a maturity of more than nine years peaked at 13.4 per cent on 7 October; after falling to 11.6 per cent on 13 November, it rose slightly and only began to come down again in mid-January, to stand at 11.5 per cent at the end of the month. The average yield on Treasury credit certificates came down from 17.2 per cent in October to around 15 per cent in November and December, declining further to around 12 per cent in mid-February.

Figure 26

Yield curves (1)



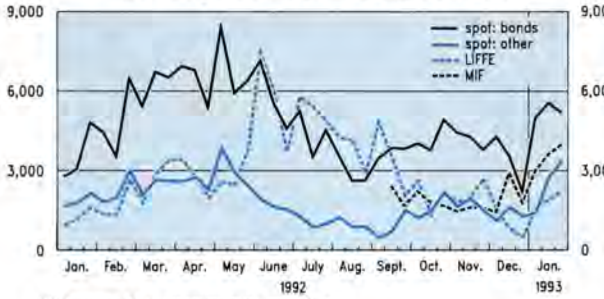
(1) Yield on zero-coupon bonds net of withholding tax, plotted against their maturity in years.

The slope of the yield curve for government securities, which was sharply negative at the beginning of September, flattened over the next three months and turned positive in December; since then the slope of the curve has become slightly steeper (Figure 26).

The differential between domestic and foreign long-term rates was still considerably wider in January than it had been before the currency crisis, though narrower than the peaks recorded in the early autumn. The differential vis-à-vis German long-term rates widened from 2.8 percentage points at the end of May to 5.5 percentage points in the first half of October and was on the order of 4.5 points at the end of January. In the case of France, the differential widened from more than 2.3 points in May to 3.7 points at the end of January. The differential between the rates on the ecu issues of the Italian and French Treasuries, which had been less than 10 basis points at the end of May, widened to more than 75 basis points at the beginning of this year; during January it narrowed to around 50 basis points.

Figure 27

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

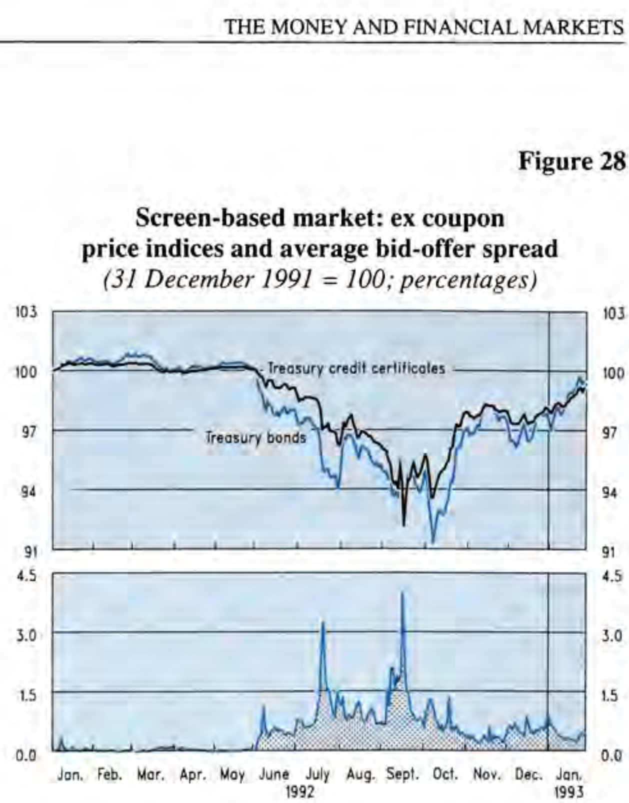


(1) Average daily turnover in billions of lire.

The deterioration in the climate of confidence towards the end of November was revealed by the average bid-ask spread on the screen-based market for government securities. After halving to around 32 basis points between October and November, it rose to 57 basis points in December. This is an unusually large value for a market as deep and liquid as the screen-based market and for government securities. The uncertainty signaled by the behaviour of the spread also affected turnover, which fell sharply in the final month of the year. In January this trend was reversed, with a growth in turnover (Figure 27) and a narrowing of the bid-ask spread, which nonetheless remained wider than it had been before the crisis (Figure 28). Turnover on the Italian Futures Market (MIF) was substantial: in December, when the medium-term contract was introduced, it exceeded the turnover in Italian Treasury bond futures on LIFFE in London (40.2 trillion lire, as against 20.7 trillion), and in January it remained significantly larger.

Figure 28

Screen-based market: ex coupon price indices and average bid-offer spread
(31 December 1991 = 100; percentages)



In response to the uncertainties that prevailed in the markets in the second half of the year, public debt management was particularly active, with revisions in the issue procedures and changes in the range of securities supplied: a new stop-out mechanism was introduced in Treasury bill auctions, the issue of seven and ten-year paper was suspended on occasion, three-year Treasury bonds were issued beginning in October, and at the start of the year a five-year 5 billion Deutschemark issue was launched successfully.

These changes were reflected in the shortening of the average residual life of the public debt from just over three years in May to two years and ten months in January, roughly the same as a year earlier. This was also due to the large volume of sales of Treasury bills, whose share of total net issues rose from 10.8 per cent in 1991 to 32.5 per cent last year (Table 14). Total net issues of government securities increased from 10.7 to 40.6 trillion lire between the third and fourth quarters. In the last two months of the year net issues of Treasury bonds amounted to around 11 trillion lire; by contrast, in the three preceding months there had been net redemptions of 5.9 trillion, partly as a result of the large proportion of short-term and floating rate paper issued in August.

Table 14

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	93,010	23,000	3,680	–	826,100
1992	675,055	6,961	83,426	95,519	14,500	4,759	–	880,220
				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	85,783	22,923	1,775	–3,296	128,093
1992	44,730	1,943	60,024	33,575	3,847	520	–7,042	137,597

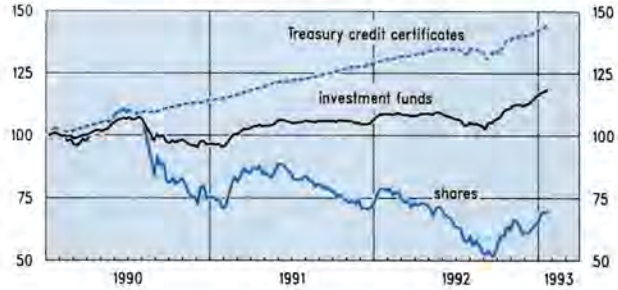
(1) Issue discounts are not accounted for in net issues.

Demand for government securities was weak until mid-October but picked up subsequently, reflecting the passing of the most acute phase of the crisis of confidence and, as regards medium and long-term securities, expectations of a fall in interest rates. Demand showed signs of weakening at the end of November, though it continued to exceed supply; in the next two months it was generally buoyant. Outright and temporary purchases of government securities by households and firms revived in the fourth quarter after declining by around 41 trillion lire in the first three quarters compared with a year earlier: in the fourth quarter households and firms made net purchases of almost 21 trillion lire, as against net disposals of around 8.6 trillion in the fourth quarter of 1991; their outright purchases, which had accounted for half the total in the first three quarters, increased their portfolio net of repos by around 25 trillion.

Share prices turned up in October and continued to rise into the early weeks of this year (Figure 29). The partial recovery of the share market is attributable to a variety of factors, including the reduction in interest rates, the suspension of the capital gains tax until next September and the outlook for improved corporate profitability stemming from the depreciation of the lira. For 1992 as a whole, the Milan Stock Exchange Index fell by 11.7 per cent.

Figure 29

Securities market: indices of capitalization
(31 December 1989 = 100)



The rise in turnover on the Milan Stock Exchange also testifies to the revival of interest in investment in shares: in the last quarter the volume of transactions amounted to 14 trillion lire, almost three times the corresponding figure for 1991 (5.2 trillion), despite the lower level of prices. Total turnover in 1992 was nearly 46.4 trillion lire, compared with 31.2 trillion in 1991; block trades and off-market trading accounted for about one quarter of the total.

Investment funds recorded net redemptions of almost 1.4 trillion lire in the final quarter, reducing their net fund-raising for the year to 750 billion; at the end of December the resources of these intermediaries totaled 60.6 trillion lire. During 1992 the share of goverment securities in funds' portfolios remained broadly unchanged at 57 per cent; the proportion of Italian shares fell from 16 to 11.7 per cent, while that of foreign securities increased from 16.2 to 24.8 per cent.

Short-term prospects

The international economy

The cyclical disparities among the leading industrial countries, the difficulty of reconciling countries' different macro-economic objectives, and the consequent economic policy divergences, especially in the monetary field, severely shook the foreign exchange markets in the second half of 1992. The strains that emanated from the European Monetary System and, in more general terms, continuing financial instability are exposing the real economy to greater uncertainty. The sudden fluctuations in exchange rates are depressing confidence, which has already been dented by the prospect that the recovery will be hesitant owing to continued high real interest rates, despite recent signs of a rate reduction. Even in those countries where the currency depreciated the most, the prospects for a sustained growth in exports remain uncertain, as the adverse effect of increased exchange rate volatility is being compounded by the loss of purchasing power due to the deterioration in the terms of trade and fears about the restrictive economic measures that have to be taken to contain the inflationary potential inherent in the devaluation.

The forecasts for 1993 and 1994 must therefore be treated with particular caution. The indicators of business and consumer confidence do not show optimism over the short term, except in North America. The projections for 1993 by international organizations have been revised downwards since last autumn.

According to the latest set of forecasts, drawn up by the European Community in January, the average rate of growth in the industrial countries should not differ significantly from that recorded in 1992 (1.8 per cent; see Table 15), whereas as recently as last September the IMF considered growth of 3 per cent to be probable. The disparities that were already apparent towards the end of 1992 between the United States, where the economy was showing signs of a recovery, and Japan and Europe, where growth was tending to slow down, will become more pronounced this year. Output is expected to increase by 2.5 per cent in the United States, by 1.5 per cent in Japan and by only 0.8 per cent in the European Community. Within the EC, the United Kingdom is likely to record growth of 1.5 per cent and France 1 per cent. In the western part of Germany, output is expected to decline by half of one percentage point; according to the more pessimistic estimates by the German authorities and the leading forecasting bodies in that country, the decrease may be a whole percentage point or more.

The stagnation in output will have serious repercussions on the labour market. The unemployment rate is stationary in the United States but is likely to reach 10.5 per cent in Europe this year and 11 per cent next, one and a half points more than last year. In view of the usual time lags, it will be the second half of 1993 before economic activity in Japan and Europe benefits from the present fall in interest rates and, in Japan, from the expansionary effect of the fiscal package. In 1994 growth is likely to return to a rate of 2.5 per cent in the industrial countries as a whole, but to one of less than 2 per cent in the EC.

The volume of trade within the OECD area is expected to grow by barely 3 per cent this year and then to accelerate to 5 per cent in 1994. World trade, by contrast, should continue to increase by 5 per cent in 1993 and 6 per cent in 1994. As last year, the greatest stimulus is likely to come from the developing countries, especially the newly industrialized economies of Asia and Latin America; the LDCs' imports from the OECD area are expected to increase by 8 per cent, giving a considerable fillip to demand in those countries. This will have the beneficial effect of increasing the industrial countries' current account surpluses and transferring real resources to the less developed economies.

Table 15

Forecasts of the main international macroeconomic variables

(percentage changes on previous year)

	1992	1993 (1)	1994 (1)		1992	1993 (1)	1994 (1)
GDP/GNP (2)				**Current balances** (5)			
OECD countries	1.6	1.8	2.5	OECD countries	–16.4	–9.3	3.3
of which:				*of which:*			
United States	*2.1*	*2.5*	*2.8*	*United States*	*–53.1*	*–53.4*	*–62.9*
Japan	*1.5*	*1.5*	*2.5*	*Japan*	*116.3*	*124.4*	*132.9*
EC	*1.1*	*0.8*	*1.8*	*Germany*	*–25.3*	*–24.5*	*–20.7*
Germany (3)	*0.3*	*–0.5*	*1.0*				
Consumer prices				**Unemployment rate** (6)			
OECD countries	3.7	3.3	2.9	OECD countries	7.9	8.2	8.1
of which:				*of which:*			
United States	*3.1*	*2.8*	*2.8*	*United States*	*7.4*	*7.3*	*7.0*
Japan	*2.4*	*2.5*	*2.5*	*Japan*	*2.2*	*2.3*	*2.3*
EC	*4.5*	*4.3*	*3.5*	*EC*	*9.5*	*10.5*	*11.0*
Germany (3)	*4.0*	*3.5*	*3.0*	*Germany (3)*	*5.9*	*6.0*	*6.5*
Budget balances (4)				**World trade** (2)	**4.7**	**4.9**	**6.1**
United States	–4.8	–4.8	–4.5	**Exports** (2)			
Japan	1.3	0.5	0.5	OECD countries	3.7	4.1	5.8
Germany	–3.2	–3.5	–3.8	LDCs	6.5	6.6	6.3
				Imports (2)			
				OECD countries	4.3	3.9	5.6
				LDCs	6.8	7.8	7.7

Sources: EC, January 1993; OECD, December 1992.
(1) Forecasts. – (2) At constant prices. – (3) Western regions. – (4) As a percentage of GDP/GNP. – (5) Billions of dollars. – (6) Level.

However, trade prospects are clouded by uncertainty about the outcome of the Uruguay Round and by the recent serious accentuation of trade disputes between Europe, the United States and Japan.

With the prices of energy and raw materials showing very little change, unit labour costs in the private sector rising by about 2 per cent and economic activity declining, inflation in the industrial countries should slow down further to little more than 3 per cent and remain at this level over the medium term.

In the Group of Seven countries as a whole, the public sector had a slightly expansionary impact on the economy in 1992, even after cyclical adjustment. This year the Japanese economy should feel the stimulatory effects of the measures adopted last December and of a further public spending programme that is expected to be presented in April.

In the United States the new Administration has announced a set of measures aimed at boosting employment this year in view of the hesitant growth in jobs, despite the pick-up in output. The Administration is conscious of the fact that in the absence of a credible plan to reduce the budget deficit the structural component is likely to increase considerably over the medium term; accordingly, the stimulatory measures have been accompanied by a programme of tax increases and spending cuts that will come into force from 1994 onwards. The effect of the various measures on economic activity this year will be expansionary; the medium-term impact will be determined by two opposing tendencies: the reduction in the budget deficit will produce benefits for interest rates and investment, while the increase in the tax burden may discourage consumer demand. In Europe the scope for discretionary fiscal measures appears to be extremely limited; the size of budget deficits and, in many countries, the heavy public debt burden mean that countercyclical action must be left to the operation of built-in stabilizers, and that the efficiency and quality of public expenditure must be increased. The European Council in Edinburgh committed the EC countries to switch the emphasis of public spending towards investment and initiated concerted action to boost growth, including modest Community investment in the sectors of energy, transport and telecommunications.

In these circumstances, demand stimulus may come mainly from a further easing of monetary conditions; a decline in long-term interest rates from the present high levels would offset the slightly restrictive effect of fiscal policy. Although small, the recent reduction in official rates in Germany is important for its impact on exchange rates within the EMS. The decision was made possible by the satisfactory outcome of pay negotiations in the public sector, which will hold down the rate of wage increases, and by the Government's commitment to implement a plan to consolidate the public finances over the medium term, in agreement with the two sides of industry. This allayed fears of inflation and, with the onset of recession, made it possible to reduce long-term interest rates, which are now below 7 per cent. It may be possible to ease monetary conditions further if the tendencies described above translate into a slowdown in prices and money supply growth. Real long-term interest rates in Germany remain above 3 per cent; during the post-war period they have never fallen below 2 per cent.

Cyclical developments in the United States will influence the performance of the European economies. If the expansion in the United States proves to be weaker than predicted, it will be difficult for recovery in Europe to begin before the end of 1993; on the other hand, a more vigorous upturn in the United States, which would be consistent with the signals coming from the leading indicators in recent months, would increase demand. According to econometric estimates, the benefits to Europe would be small if growth in the United States were 1 percentage point higher than forecast for 1993; if in addition the dollar were to appreciate by about 10 per cent and return to its mid-1991 level, thus improving the competitiveness of the European economies, the benefits in both 1993 and 1994 would amount to between half and one percentage point, depending on the country.

Given the mood of uncertainty that is now evident, particularly in the instability in the foreign exchange markets, it cannot be excluded that the outcome may be less favourable if currency unrest depresses confidence. The present narrowing of the interest rate spread between the United States and Germany should eliminate a cause of disturbance outside the EMS. Nevertheless, the traumatic events of the last few months make it essential to give fresh impetus to the EMS; the means of achieving this are currently under consideration. Events have demonstrated the increasing difficulty and cost of maintaining stable exchange rates if economic policies diverge and confirmed the need for closer cohesion and coordination of monetary management among the ERM countries. The EMS has played an essential part in reducing inflation and imposing monetary discipline in Europe; in today's delicate situation it should be defended as a common good and its mechanisms reinforced in the transition towards the monetary unification of Europe.

The Italian economy

The state of the Italian economy, which has worsened since last summer, reflects the cyclical downturn affecting the whole of the Community; the impact of the recession has come on top of the effects of imbalances that were not corrected in time during the years of greater prosperity.

According to preliminary estimates, GDP grew by 1 per cent in 1992; the fall in capital expenditure was accompanied by a slowdown in households' consumption as a result of a sharp deterioration in income and employment expectations, especially in the second half of the year. These concerns compounded the climate of uncertainty generated during the crisis of last September by growing fears of illiquidity and capital losses on financial assets. Opinion polls show that in the fourth quarter of 1992 households' confidence fell to its lowest level since

The 1993 budget

According to the official estimates, the budget for 1993 should reduce the public sector borrowing requirement on a current programmes basis by around 93 trillion lire, or 5.8 per cent of GDP, in line with the indications of the Planning and Forecasting Report published in September of last year. Parliament modified the composition of the measures tabled by the Government but without diminishing the overall effect. In particular, a reduction of around 1.5 trillion lire in the expenditure savings proposed was offset by increases in taxes and social contributions. The measures adopted are expected to produce expenditure savings amounting to 41.9 trillion lire and additional revenue totaling 44.4 trillion. Another 7 trillion is forecast to come from the privatization programme.

This year's budget stands out from those of the last few years for the scale of the adjustment, the size of the spending cuts and the greater recourse to measures producing permanent effects, which are reinforced by being tied in closely with the structural reforms that have been enacted with the adoption of the main implementing decrees (Legislative Decrees 502, 503 and 504 of 30 December 1992, Legislative Decree 29 of 2 February 1993) provided for in the enabling law approved in October last year (Law 421/1992).

Revenue

Taxes. *– The changes made in Parliament to the provisions implementing the Finance Law left the planned revenue total intact with an increase of 34 trillion lire expected in state sector revenue and a net reduction of 9 trillion in the public sector borrowing requirement as a result of the measures regarding local authority finances. These measures had already been defined in Law 421/1992 and were given effect in Legislative Decree 504. Local authority revenue is expected to increase by around 12.5 trillion lire, of which 3.5 trillion as a result of the transfer to the regions of receipts previously accruing to the state sector; the municipal tax on buildings is forecast to produce 12 trillion lire.*

Conformity with the original figure for the increase in state sector revenue was achieved through the promulgation of Decree Law 513 of 31 December 1992 in place of the planned measure on various forms of relief. The decree embodied some of the cuts in agricultural relief and is expected to produce 1.5 trillion of additional revenue.

The decree introduced a new schedule of VAT rates conforming with the provisions of the Community Directives in this field. These included: the abolition of special high rates (38 per cent in Italy's case); a standard rate of not less than 15 per cent (Italy currently has a standard rate of 19 per

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

Increase in revenue	**51,400**
Tax revenue	**43,300**
Decree Law 384/1992 (ratified as Law 438/1992)	*25,300*
Prorogation of payment of 100% of withholding tax on interest from bank deposits	1,300
Revision of personal income tax brackets	6,100
Limitation of compensation for fiscal drag	2,200
Treating deductible expenses as tax credits	1,500
Non-deductibility of local income tax	7,000
Imputed self-employment and business income coefficients	7,000
Other measures	200
Decree Law 394/1992 (ratified as Law 461/1992)	*5,000*
Special tax on companies' net worth	5,000
Decree Law 384/1992 (reiterated as DL 16/1993)	*2,500*
Extension of condonation schemes	2,500
Decree Law 513/1992	*1,500*
Revision of VAT, excise and sales tax rates	2,150
Suppression of minor taxes	–1,600
Reduction in relief	1,200
Other measures	–250
Legislative Decree 504/1992 (2)	*9,000*
New municipal tax on buildings (3)	12,000
Loss of local income tax revenue	–3,200
Loss of income from capital gains tax on property (4)	–300
Provincial taxes	500
Social contributions	**1,100**
Decree Law 384/1992 (ratified as Law 438/1992)	*1,100*
Increases in rates	1,100
Privatizations	**7,000**
Decree Law 333/1992 (ratified as Law 359/1992)	*7.000*
Decrease in expenditure	**41,900**
Decree Law 384/1992 (ratified as Law 438/1992)	*26,800*
Wages and salaries	9,900
Health services	4,450
Social security	11,450
Other measures	1,000
Law 500/1992 (Finance Law) and Law 498/1992	*15,100*
Reduction in transfers on capital account	6,800
Reduction in transfers on current account and in purchases of goods and services (5)	6,100
Financial items	2,200
TOTAL	**93,300**

(1) Official estimates. – (2) Effect on the revenue of the public sector (the effect of the transfer of vehicle tax from the state to the regions is therefore not shown)– (3) Estimated on the basis of the minimum rate of 4 per thousand. – (4) Net effect of the loss of municipal revenue and of the increase in central government revenue. – (5) Includes a 3.5 trillion lira reduction in transfers to local authorities matched, in the official estimates, by an equal reduction in their spending

cent); not more than two reduced rates of not less than 5 per cent (Italy has chosen 9 and 12 per cent); and the possibility of maintaining lower rates only where such arrangements already existed and have been expressly provided for by the Community (Italy has a 4 per cent rate for some goods). The resulting increase in revenue is officially estimated at 950 billion lire.

Decree Law 513 also introduced a special tax payable when motor vehicles that were previously subject to VAT at 38 per cent are registered. The tax is expected to yield 150 billion lire. The law also requires importers to defer for one month (or quarter) the deduction of tax credits from their VAT payments in respect of imports from other Community countries. This measure is forecast to increase revenue for the year by 750 billion lire and offsets part of the loss arising from the elimination of customs formalities for intra-Community trade and the consequent delay in the receipt of VAT. The Government had already taken account of this loss, estimated at around 1.9 trillion lire, when determining the borrowing requirement on a current programmes basis.

Decree Law 513 also abolished some excise taxes and sales taxes that did not conform with the principles laid down by the Community. The resulting loss of revenue is estimated at 1.6 trillion lire. On the other hand, the law increased the rates of some excise and sales taxes. This is expected to bring in 1.2 trillion of additional revenue, primarily from the tax on tobacco products.

Changes were also made in the government concession charge for inclusion in the company register and in the annual VAT registration fee. These measures are expected to reduce revenue by 1.15 trillion lire.

***Social contributions.** – Law 438 of 14 November 1992 introduced a series of measures to boost revenue in addition to those provided for in Decree Law 384/1992. In particular, with effect from this year, the social security contributions payable by craftsmen and shopkeepers will be based on all the entrepeneurial income they declare in their income tax returns rather than just the part arising from the activity to which the pension scheme refers. In addition, the contribution rates payable by employees were increased by one percentage point for all the pension schemes under which the employee rate was less than 10 per cent. The increase is applicable to earnings in excess of the first pensionable income limit referred to in Law 67/1988, which this year stands at 53.5 million lire. The measure also applies to the pension schemes for the self-employed. As regards health service contributions, Law 438/1992 raised the rates payable by employees and the self-employed.*

Expenditure

***Wages and salaries.** – Decree Law 384/1992 was ratified without substantial changes to the provisions on public employment or in the estimated saving (9.9 trillion lire).*

***Health services.** – Major changes were made to the provisions of Decree Law 384/1992 in this field, leading to a reduction of 1.05 trillion in the expected saving. As ratified, the law requires persons to pay, subject to a means test, a fixed contribution of 85,000 lire in order to use the services of family doctors. Users are also required to pay the full cost of drugs and diagnostic services up to certain amounts and 10 per cent of the costs in excess. Law 438/1992 provided for an annual limit to be fixed on the amount of drugs persons exempted from paying contributions may receive without having to bear a part of the cost and increased the fixed charges payable for services other than hospitalization.*

***Social security.** – Law 438/1992 suppressed the inflation-linked increase in pensions scheduled for November 1992, which Decree Law 333 of 11 July had already suspended, and the earnings-linked increase scheduled for January 1993, which would have been on the order of 2 per cent. The increases based on the planned rate of inflation scheduled for May and December of this year have been replaced by increases of respectively 1.8 and 1.7 per cent in June and December. The law also suspended, until the end of this year, most of the provisions that permit workers in both the private sector and the public sector to retire on a seniority pension before reaching the age of eligibility for an old-age pension.*

***Other expenditure.** – The Finance Law reduced the amounts appropriated for the purchase of goods and services and for transfers on current and capital account. Law 498 of 23 December 1992 provided for: the suspension, until the end of this year, of the effects of certain laws empowering local authorities to raise loans to be repaid, in part or in full, by the state; the suspension for the whole of this year, of the payment to the Deposits and Loans Fund of the annual amounts due in relation to the commitments authorized by laws on public residential building (ample funds for this purpose are in any case deposited with the Treasury); and a reduction in the transfers from the National Health Fund to the special-statute regions and the autonomous provinces of Trento and Bolzano. Finally, Law 438/1992 reduced the appropriations for aid to developing countries and tightened the limits on the amounts of ENEL loan and bond repayments that can be borne by the state.*

the recession of the early eighties and remained depressed in January. Respondents were also very pessimistic about the country's economic situation and the outlook for employment.

Industrial production was around 1.5 per cent lower in the fourth quarter than in the third. Business opinion surveys confirm that expectations regarding demand and production remain negative in the early part of this year. The deterioration in business sentiment, low capacity utilization rates and the high cost of borrowing suggest that the fall in capital spending is not likely to be reversed in the near future.

In addition to the decline in industrial output, difficulties have emerged in the rest of the economy; these are confirmed by Isco's sample survey of businesses, which shows a fall in the turnover of wholesale and retail trade at the end of 1992.

The stagnation of production has caused conditions in the labour market to worsen in Italy, as elsewhere. Labour shedding in industry has increased and the service sector's potential to create jobs appears to have been almost exhausted. The unemployment rate stood at 9.5 per cent according to the labour force survey conducted in October, which introduced a more restrictive definition of job-seeker that is closer to the standard one adopted by other countries. Comparison with the results of previous surveys is difficult, but the number of job-seekers appears to have increased appreciably and that of employed workers to have diminished. The fall in the demand for labour is not only a result of the present unfavourable conditions, but also a legacy of past trends in economic activity and of the industrial restructuring and concentration initiated in recent years.

The forecasts for 1993 strongly reflect the uncertain prospects regarding world economic activity and the climate of household and corporate confidence. On the basis of the results for 1992 and the expected effects of the economic policy programme during the remainder of the year, the main forecasting bodies concur in predicting that GDP growth will not exceed 0.5 per cent and in any case will be smaller than in 1992. The revival in foreign demand during the year should compensate for the fall in domestic demand, allowing output to rise again in the second half after having declined continuously since last summer. The overall result will depend partly on the world economic recovery and the scale of competitive gains, but more importantly on an improvement in the negative expectations that in the past few months have led economic agents to cut back planned expenditure. If this does not happen, there will be a greater risk of output declining throughout the year. In view of persisting consumer caution, the pronounced fall in capital spending could be accompanied by a sharp slowdown or even contraction in households' consumption, which increased by an estimated 2 per cent in 1992.

According to most estimates, Italian exports should expand faster than world trade. The underlying deterioration in the current account, which has persisted for many years, should come to a halt; the contraction in domestic demand and the large depreciation of the lira (by 21 per cent in nominal effective terms since August 1992) should cause the deficit to diminish despite the worsening in the terms of trade.

As the economic situation has deteriorated, so the employment outlook has darkened. A new feature of the current phase is that the increase in unemployment no longer mainly involves young people seeking their first job and also reflects considerable job losses in industry in the Centre and North. Available data indicate that the number of full-time equivalent workers receiving wage supplementation increased towards the end of 1992; this would add a little more than one percentage point to the unemployment rate recorded in October.

Measured in terms of the cost-of-living index, the twelve-month rate of inflation declined to 4.8 per cent at the end of 1992; it fell further to 4.3 per cent in January – partly as a result of the rise in the index in January 1992 due to increases in taxes and public service charges – before edging upwards in February to 4.4 per cent, according to provisional data.

The slowdown in inflation after the devaluation of the lira is attributable to a variety of causes. In the fourth quarter of last year the seasonally adjusted cost-of-living index rose by only 0.9 per cent compared with the third quarter and by less than 4 per cent on an annual basis. This was due to both domestic and foreign factors, which can be approximated respectively to the value added deflator of the private sector and to the average unit value of imported goods. The precise behaviour of these two components is not yet known, but it can be reconstructed from estimates of labour costs and productivity in the private sector and incomplete information on the prices and volumes of imports. These data suggest that important factors helping to curb inflation in the fourth quarter were the clear-cut deceleration in unit labour costs and the fall in the dollar prices of raw materials (by 6 per cent for oil and by 5 per cent for other raw materials), which partly offset the depreciation of the lira against the dollar. However, these factors alone are not sufficient to account for the slowdown in inflation, leading one to infer that domestic producers and foreign exporters adopted pricing strategies designed to defend their market shares in Italy during a period of declining demand. Available data on import prices in September and October indicate that in the wake of the devaluation of the lira foreign producers accepted a sharp squeeze on their profit margins, at least in the short run.

In the coming months the continuing weakness of the dollar prices of imported inputs could have a beneficial impact on inflation, although the price of oil recovered slightly in February when the OPEC countries reached agreement on production quotas. However, the rises in the lira prices of imported inputs, which have been moderate so far, may become more marked in the first few months of this year as the stocks of raw materials and intermediate goods built up before the devaluation are depleted. Moreover, foreign suppliers may be unable to bear the squeeze on margins in the long run and may therefore begin to mark up their lira prices more sharply, taking the risk of losing competitiveness vis-à-vis Italian producers.

These upward pressures on domestic prices will not necessarily translate into higher inflation. A decisive factor will be the determination of firms to benefit from the devaluation of the lira in terms of price competitiveness in the domestic market as well as abroad. The consequent gain in market share, together with the moderation of the rise in labour costs, would help relieve the pressure on corporate profits due to the weakness of domestic demand, as well as providing a strategic opportunity to counter the growing penetration of imports.

The abolition of the *scala mobile* and the commitment embodied in the agreement of 31 July 1992 not to seek further pay increases this year limit the danger of a wage-price spiral fueling and propagating inflation, as happened in the aftermath of past devaluations. Wage moderation is being encouraged by the fall in inflation that has occurred in the meantime.

Incomes policy, based on a dialogue between employers, the trade unions and the Government aimed at rapidly defining new rules for wage determination capable of producing a framework of wage certainty, is one essential ingredient, but another is the contribution of fiscal policy.

The programme for restoring sound public finances, consisting of the measures adopted in September and the enabling law on health services, public employment, social security and local authority finance, was ratified when Parliament approved the Finance Law in December. The enabling law, which links the 1993 budget to structural measures that will continue to affect the main sectors of expenditure in the years to come, is complemented by the implementing legislative decrees. The overall objective of fiscal policy is to achieve spending cuts and increased receipts amounting to 93 trillion lire, or 5.8 per cent of GDP, compared with the current programmes scenario. The Government aims to produce a primary state sector surplus of 50 trillion lire; the overall borrowing requirement should not exceed 150 trillion, one and a half percentage points less in relation to GDP than in 1992, assuming that interest payments amount to 200 trillion lire.

The adjustment programme should be judged not only on the scale of the corrective measures and their actual impact on the public finances, which will depend on economic developments, but also according to the merit of the actions taken and the effectiveness of the instruments adopted; these are the keys to reviving confidence, improving expectations and restoring normal conditions in the financial markets. Success will be measured by the extent to which the yields demanded by the subscribers of public debt decline towards the levels prevailing in the other countries of the Community.

Economic policy is called upon to counter inflation and to adjust the public finances so as to restore the economy to a path of output and employment growth. The task that economic policy is obliged to perform has been facilitated, as far as the intermediate public finance objectives are concerned, by the loan received from the European Community this January in the form of medium-term balance-of-payments assistance. The loan, totaling Ecu 8 million, will be disbursed in four instalments on condition that the Italian authorities honour precise commitments regarding financial adjustment that are consistent with the three-year plan laid down in the Government's Economic and Financial Planning Document published last year. According to the plan, which has been submitted to the Community, the state sector borrowing requirement should be reduced to 9.3 per cent of GDP in 1993, 7.3 per cent in 1994 and 4.7 per cent in 1995. The ratio of the public debt to GDP should stabilize in 1994 and decrease thereafter.

Achievement of the objectives for 1993 is subject to certain risks. The economy's projected growth is at least one percentage point lower than forecast last September, the spending cuts could curtail tax revenue more heavily than foreseen, and, finally, some of the reductions in expenditure, particularly those in transfers to local authorities, may turn out to be smaller than forecast if the spending behaviour of the latter is inconsistent with the objectives. On the other hand, the burden of interest payments could fall to below 200 trillion lire, as the decline in interest rates in the first two months of the year has been larger than assumed in the forecast. If rates remain at their current level, the savings would be of the order of 5 trillion lire.

In the coming months the actual trend of the public finances will have to be monitored rigorously and continuously in order to verify that it is consistent with the objectives. A first important examination will be carried out for the Minister of the Treasury's next quarterly report on the borrowing requirement. If the figures reveal a divergence from the planned path, corrective measures will have to be considered; should such measures prove necessary, the sooner they are decided the more effective they will be in containing the deficit in the course of the year. More accurate analyses will be possible in the months ahead; the reliability of the estimates of the revenue to be produced by the minimum tax can be evaluated in June or July. At the end of July the situation will be reassessed on the basis of the results for the first half and fresh forecasts for the rest of the year. Disbursement of the second instalment of the EC loan is itself contingent on meeting the public finance targets; only overshoots caused by slower economic growth or higher interest rates than projected will be allowed. Interest payments that are lower than forecast cannot be set against a shortfall in the primary surplus.

In the past few months, the successive cuts in the discount rate to its present level of 11.5 per cent have already made it possible to bring money market rates down to levels similar to or even lower than those obtaining before the crisis. Long-term rates have also fallen to values close to those recorded in June 1992.

The current trends create scope for further reductions in bank lending rates, which are generally more sticky in a downward direction; this would provide some relief for the productive sector. A cut in rates may be encouraged by the recent decision to reduce banks' reserve requirements, which will release a total of 35 trillion lire, and by swift enactment of the bill on the Treasury's current account with the Bank of Italy.

Particularly in the present system of floating exchange rates, monetary policy has to provide economic agents with a firm frame of reference that shapes their expectations and actions to conform with the objective of bringing down inflation. The expansion of the M2 money supply will be kept within a target range of 5 to 7 per cent this year; this is a formidable constraint, given the inflationary risk inherent in the lira's present very low exchange rate, and it is consistent with the Government's economic policy of austerity. In the past few months the growth in M2 has remained well within the target range. The gradual fall in interest rates and the declining advantage of acquiring financial assets abroad could cause the money supply to grow faster in the second half of the year. Easier monetary conditions could thus be reconciled with strict observance of the target range for M2 only if inflation remains moderate and confidence revives in the financial markets.

The return to normal expectations, which would substantially reduce the risks of inflation and financial instability, will not only lower interest rates but will also help restore the external value of the lira to a more reasonable level with a view to its re-entry into the EMS. Leaving aside the present difficult economic and political situation, the factors that will restore consumer and business confidence and thus bring about a stable revival in output and a lasting recovery in employment are monetary stability, the adjustment of the public finances, the curbing of domestic production costs, enhanced competitiveness and the private sector's high propensity to save.

Based on information available at 23 February.

Articles

Turnover on the foreign exchange market (*)

Introduction

The third in a series of statistical surveys of turnover in foreign exchange markets was conducted by 26 central banks in the month of April 1992, following similar studies in 1986 and 1989. An analysis of the overall results of the surveys, net of double counting, is being prepared for publication by the Bank for International Settlements.

When interpreting the results, it needs to be remembered that the survey month was one of substantial stability, with little volatility in the most important exchange rates and limited intervention by central banks. In periods of exchange market turbulence, both the volume and the composition of transactions can vary significantly.

Global foreign exchange turnover

The foreign exchange market is truly global, in that trading is conducted within a closely integrated framework, despite its originating in many different financial centres.

The average net daily foreign exchange turnover[1] in the 26 countries participating in the 1992 survey was 50 per cent greater than in April 1989, amounting to $1,118 billion as against $744 billion (Table 1); in gross terms, the increase was from $932 billion to $1,337 billion. Compared with the 116 per cent increase over the three previous years, there was a slowdown in the growth of turnover. This appears to have been primarily due to the tapering off in the major countries of the boost deriving from foreign exchange liberalization, which had fostered the rapid growth of trading in the late eighties. The figures confirm the predominance of foreign exchange transactions within the financial markets.

The share of trade-related turnover remained about the same as in April 1989, since the factors underlying turnover growth continued to sustain the pre-eminence of financial over commercial transactions. There is a perceptible tendency among market participants to manage trade-related foreign exchange positions through a series of purely financial transactions.

The survey confirms the leadership of London, Tokyo and New York. These three financial centres accounted for 60 per cent of all foreign exchange turnover in April 1992, compared with 57 per cent three years earlier; the London market gained 4 percentage points, while Tokyo lost 3 points. However, the survey also found high growth rates in relatively undeveloped financial centres, due chiefly to the recent liberalization of capital movements, at least in several European countries.

There were significant variations in the currency composition of total turnover. The dollar remained pre-eminent, but even so its share of gross transactions declined from 90 to 83 per cent. At the same time trading in Deutschemarks increased from 27 to 38 per cent of the total, while the yen slipped from 27 to 24 per cent.

(*) Prepared by the Foreign Department of the Bank of Italy and the Italian Foreign Exchange Office.

Table 1

Average daily turnover on foreign exchange markets
(net amounts in billions of US dollars) (1)

	April 1989	April 1992	Percentage change
United Kingdom	187	300	*60.50*
United States	129	192	*49.10*
Japan	115	126	*9.70*
Switzerland	57	68	*19.40*
Singapore	55	68	*23.60*
Hong Kong	49	61	*24.30*
Germany	–	56	–
France	26	35	*36.70*
Australia	30	30	–
Canada	15	23	*50.20*
Netherlands	13	17	*33.60*
Belgium	10	16	*59.40*
Italy	10	15	*55.10*
Other	48	111	*23.10*
Total ...	**744**	**1,118**	***51.00***

(1) BIS estimates, net of double counting for contracts between banks of the same country; adjusted for double counting of transactions between banks in different countries, the total daily turnover in April 1992 comes to $880 billion.

As regards market participants, the survey confirms the leading role of banks, though their share of total trading declined from 83 to 73 per cent, while revealing the growing importance of non-bank intermediaries and customer transactions. The role of brokers, who operate above all in the interbank market, appears to have declined, especially in the United States and the United Kingdom, after the expansion registered between 1986 and 1989.

Another important development is the increasing use being made, at least in some financial centres, of computerized trading systems featuring direct, on-line communication between traders.

The classification by type of transaction shows a sharp increase in the use of currency swaps and derivative products (futures and options). Spot trading nevertheless continued to be the leading form of transaction and accounted for 47 per cent of total net turnover, just ahead of swaps (39 per cent). Even though they grew by 57 per cent, outright forward transactions were no more than 7 per cent of the total in April 1992. There was also very rapid growth in currency futures and especially in options (with turnover in the latter rising by 109 per cent), but the share of these instruments in total net turnover remained no more than 1 and 5 per cent, respectively.

A number of factors were at work in the more rapid expansion of trade in derivative products compared with spot transactions. First was the tendency of banks, following the introduction of capital adequacy ratios, to make use of off-balance-sheet instruments, which carry lower ratios. Second, the liberalization of capital movements and the increasing number and variety of contracts offered on regulated markets (LIFFE, MATIF, NYSE) increased the popularity of derivative instruments by improving their liquidity.

Turnover on the Italian foreign exchange market

The expansion of trading on the Italian foreign exchange market over the past three years has been fueled by the process of exchange liberalization.

In neither of the two survey months, April 1989 and April 1992, was the Italian foreign exchange market affected by significant political, financial or economic disturbances. Accordingly, comparing the results of the two surveys brings out the changes that occurred in the structure of the market.

The survey was based on reports to the Italian Foreign Exchange Office by 23 banks operating in Italy, 9 of which are branches of foreign banks. On the basis of their net external positions at the end of the month, the sample banks accounted for about 79 per cent of total foreign exchange business in April 1992, compared with 75 per cent for the 1989 sample banks.

The gross foreign exchange turnover of the sample was $362 billion, compared with $220 billion in April 1989 (Table 2). Accordingly, total gross turnover on the Italian market in April 1992 is estimated at $460 billion, compared with an estimated $300 billion three years earlier.

Dividing by the number of business days, gives an average daily turnover of about $22 billion, as against $15 billion in 1989. These amounts, it bears repeating, refer to gross turnover and thus do not exclude double counting. It is also worth noting that the survey was designed to capture only foreign exchange trading proper and therefore excludes transactions such as domestic currency swaps. Finally, market shares were estimated using end-month data, whereas some banks may well have had appreciably larger shares during the month; in this case, the figures for the market as a whole are underestimated.

The increase in average daily turnover compared with April 1989 was 47 per cent, which is fairly close to the worldwide increase in gross turnover over the three years.

The Italian market is dominated by spot transactions, which amounted to $259 billion or 72 per cent of the total, against $101 billion for forward transactions, which are still less important in Italy than worldwide.

The forward market expanded much more rapidly than the spot market during the three years, however. Total turnover on the latter rose from $186 to $259 billion, or by 39 per cent, while on the former it rose from $37 to $101 billion, or by more than 170 per cent.

Such innovative financial instruments as currency futures and options, which are largely limited to the US and UK markets, have not yet gained much of a foothold in Italy. Total volume was just $1.4 billion in the survey month and nearly all the options reported by the sample banks involved lire.

Most foreign exchange trading was done with non-resident counterparties (66 per cent). Business with non-residents was divided almost equally between the spot and forward markets and accounted for more than 90 per cent of the turnover on the latter. Transactions with non-residents were almost entirely in the interbank sector.

Table 2

Gross turnover of sample banks on the Italian foreign exchange market, 1989 and 1992
(millions of US dollars)

	Lira transactions		Cross-currency transactions		Total	
	1989	1992	1989	1992	1989	1992
Spot						
With banks in Italy	30,139	76,756	3,709	2,455	33,848	79,211
With banks abroad	65,650	110,901	59,626	31,784	125,276	142,685
With non-bank customers	23,364	35,386	3,196	1,954	26,560	37,340
Total	**119,153**	**223,043**	**66,531**	**36,193**	**185,684**	**259,236**
Forward						
With banks in Italy	6	5,330	3	726	9	6,056
With banks abroad	22,503	76,244	13,423	18,202	35,926	94,446
With non-bank customers	560	703	56	43	616	746
Total	**23,069**	**82,277**	**13,482**	**18,971**	**36,551**	**101,248**
Options/futures						
Purchase	23	563	5	75	28	638
Sale	0	701	5	116	5	817
Total	**23**	**1,264**	**10**	**191**	**33**	**1,455**

Table 3

Sample banks' spot and forward transactions by currency, April 1992

(millions of US dollars)

TYPE OF TRANSACTION \ CURRENCY	Lira transactions								Cross-currency transactions				
	US dollar	DM	Pound sterling	Swiss franc	Ecu	Other EMS	Other	Total	Dollar/ DM	Dollar/ ecu	DM/ ecu	Other	Total
Spot													
With banks in Italy	24,438	29,292	2,172	1,788	8,078	7,155	3,833	76,756	1,296	0	802	357	2,455
With banks abroad	56,095	50,857	311	326	739	2,348	225	110,901	15,157	2,223	4,166	10,238	31,784
With non-bank customers	11,818	8,165	1,615	1,572	3,973	5,822	2,421	35,386	564	23	449	918	1,954
Total	**92,351**	**88,314**	**4,098**	**3,686**	**12,790**	**15,325**	**6,479**	**223,043**	**17,017**	**2,246**	**5,417**	**11,513**	**36,193**
Forward													
With banks in Italy	5,216	52	2	0	9	41	10	5,330	33	301	0	392	726
With banks abroad	72,479	2,855	211	45	358	237	59	76,244	2,507	8,598	28	7,069	18,202
With non-bank customers	481	55	23	34	85	19	6	703	6	0	0	37	43
Total	**78,176**	**2,962**	**236**	**79**	**452**	**297**	**75**	**82,277**	**2,546**	**8,899**	**28**	**7,498**	**18,971**
Options/futures ..	**709**	**509**	**2**	**40**	**0**	**4**	**0**	**1,264**	**152**	**0**	**0**	**39**	**191**

Transactions with Italian residents, by contrast, were marginal in the forward market but represented 44 per cent of spot turnover. In this segment, interbank business accounted for 70 per cent of the total and customer transactions for the rest.

Compared with April 1989, there was a sharp increase in forward transactions with resident banks and spot transactions with non-resident banks.

Table 3 shows the currency distribution of turnover. Transactions involving lire amounted to $306.6 billion, or 85 per cent of the total, while cross-currency transactions amounted to only $55 billion. Virtually all cross-currency trading was done with non-resident banks on the spot and forward markets. The market segment in which the share of cross-currency trading was highest was that of outright forward transactions, where it accounted for 21 per cent of the total.

Compared with the 1989 survey, cross-currency transactions diminished in both absolute and relative terms. The decline was all in the spot segment, where

Table 4

Sample banks' foreign exchange transactions by system of intermediation

(millions of US dollars)

	Via brokers	Computerized	Direct	Total
Spot				
With banks in Italy .	26,448	41,830	10,933	79,211
With banks abroad	39,361	100,401	2,923	142,685
With non-bank customers	2,279	7,805	27,256	37,340
Total	**68,088**	**150,036**	**41,112**	**259,236**
Forward				
With banks in Italy .	2,372	2,306	1,378	6,056
With banks abroad	32,202	60,304	1,940	94,446
With non-bank customers	145	344	257	746
Total	**34,719**	**62,954**	**3,575**	**101,248**
Options/futures ...	**24**	**1,085**	**346**	**1,455**

such business fell from \$66 billion to \$36 billion. By contrast, transactions with lire on one side expanded sharply, by a factor of nearly two in the spot segment and of more than three in the forward market.

The US dollar remained the principal counterpart currency in lira transactions, accounting for 56 per cent of the total. The predominance of the dollar was absolute in forward trading, while the Deutschemark almost equalled the dollar in spot trading, where its share of total lira turnover was 30 per cent. The ecu was the only other significant currency, with 4 per cent of the total. Compared with 1989, the relative importance of the dollar and the ecu diminished (despite an expansion in absolute terms), while the Deutschemark registered a sharp increase not only in absolute terms but also relatively, rising from 20 to 30 per cent of total turnover involving lire.

The leading role of the dollar in the Italian foreign exchange market is confirmed by the figures for both spot and forward cross-currency transactions. In the spot segment dollar/DM business predominated, while in the forward segment dollar/ecu transactions were most common.

Twenty-eight per cent of total turnover was transacted via brokers (exclusively in the interbank segment), 59 per cent by way of computerized systems and the remaining 13 per cent by traditional direct methods (Table 4). The breakdown was not very different from that found in 1989, when 68 per cent of the volume of turnover was transacted direct and 32 per cent via brokers.

In the forward market, the most common maturities were those up to 7 days, which accounted for about 55 per cent of total forward turnover; next, at 41 per cent, came maturities from 7 days to a year, and finally maturities of over a year, the share of which nonetheless rose significantly from 1 to 4 per cent.

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[1] Daily net turnover designates the average value of the foreign exchange contracts concluded per business day, net of double counting for transactions between parties in the same country. Eliminating double counting in transactions between different countries as well, average daily net turnover came to \$880 billion in April 1992, as against \$620 billion in April 1989. Wherever possible, the present article uses data net of all double counting in order to reduce distortions to the minimum.

The Italian balance of payments: from June to September 1992

1. Introduction

The currency crisis in the second half of 1992 was on a pan-European scale. It affected not only the EMS currencies but also those of a number of Northern European countries that had unilaterally tied their currencies to the ecu. Interventions in defence of exchange rates totaled about $200 billion ($100 billion in September alone); they were made by a group of countries including France, the United Kingdom, Spain, Sweden, Finland, Ireland and Portugal as well as Italy; all these countries eventually devalued their currency, except France.

In Italy the crisis was coupled with severe strains in the financial markets, especially that for government securities. This reflected the loss of credibility due to the delay in tackling the imbalances in the public finances and the repeated failure to meet deficit reduction targets, prolonged uncertainty about the outcome of the Italian political crisis and the measures to correct the budget, the adverse reaction of foreign investors to the Federconsorzi and EFIM crises, and the decision by an international agency to lower its rating on Italy's foreign public debt. In the first few days of October the market prices of ten-year Treasury bonds were sometimes as much as 12 per cent lower than at the beginning of June. The growth in the public's holdings of government securities in the first three quarters of 1992 was some 20 trillion lire less than in January-September 1991; while total issues remained broadly the same, the purchases made by banks were much larger than in 1991.

The Bank of Italy used all the instruments contemplated by the Basle-Nyborg Agreement in defence of the lira's central rate within the fluctuation band. Official interest rates were raised and bank liquidity was kept under tight control, thereby forcing up short-term market interest rates. The lira was allowed to fall towards the bottom of its fluctuation band; at the same time massive intervention was carried out in the foreign exchange markets, causing an outflow of reserves of almost 53 trillion lire between June and September, with net inflows over the next three months totaling 26 trillion lire, with both flows valued at constant exchange rates.

During previous spells of exchange rate turbulence in Italy various forms of exchange control had still been in place and the response had often been to tighten them further. Last year's crisis was the first in which no such administrative constraints were in operation, nor were they reintroduced here or in the other EMS countries that had already fully liberalized their capital movements; Spain and Ireland, however, did resort to temporary restrictions on capital flows.

A brief description of the recent trends in Italy's external accounts is followed by a detailed analysis of the balance of payments between June and September 1992, the period in which the currency crisis developed. Complete monthly data on the balance of payments on a transactions basis are not normally available, and as a consequence those used here are estimates, which, while certainly indicative, are inevitably less reliable than the official quarterly and half-yearly figures.

2. Trends in the Italian balance of payments

In the five years from 1986 to 1990 the real and financial flows recorded in Italy's balance of payments gave rise to an overall surplus of almost 52 trillion lire and to an almost equal increase in the official reserves, net of valuation adjustments (Table 1). This was achieved despite there having been a current account deficit of 38 trillion lire in the period and, even more notably, outflows of capital totaling 100 trillion lire by resident firms and households. The increase in reserves was made possible by the 60 trillion lira inflow of bank capital generated by foreign fund-raising and, above all, by the 162 trillion lira inflow of investment and lending by non-residents.

With the *fob* trade account broadly in balance, the current account deficit was mainly due to the increasing burden of interest payments on the foreign debt accumulated in the first half of the eighties, when the trade balance had been in deficit. Capital exports by resident firms and households reflected the adjustment of financial portfolios and the internationalization of production following the removal of exchange controls and the progress of European integration. The net fund-raising abroad by resident banks was to meet the increased domestic demand for foreign currency loans, stimulated by the favourable economic situation and expectations of stable exchange rates, particularly after the lira's adherence to the narrow EMS fluctuation band. The inflows of foreign capital reflected the changed perceptions of foreign investors, who were led to increase the share of Italian financial assets in their portfolios by the financial liberalization under way and the authorities' repeated commitment to bring both the budget deficit and inflation under control.

These trends became more pronounced in 1991, except as regards inflows of foreign capital, which began to taper off; the total of 35.5 trillion lire was still substantial, but only half that of the previous year. As a result, the official reserves declined by 8.5 trillion lire, the first decrease in five years.

Table 1

Main real and financial transactions recorded in the balance of payments

	1986-90	1991	1992 (1)				
			Jan.-May	June-Aug.	September	Oct.-Dec.	Year
Variation in official reserves (2)	–51,712	8,571	6,300	22,855	29,858	–26,464	32,549
....							
Movements of Italian bank capital	60,206	39,369	35,202	15,105	–25,881	753	25,179
Other capital movements	61,852	–12,786	–20,980	–23,335	–3,909	22,542	–25,682
Italian capital	–99,754	–48,343	–44,859	–28,461	–3,232	14,218	–62,334
Investment	–77,132	–39,878	–35,231	–21,097	252	23,762	–32,314
Loans	–12,340	–7,671	–1,261	–2,275	–209	–1,710	–5,455
Trade credit and other	–10,282	–794	–8,367	–5,089	–3,275	–7,834	–24,565
Foreign capital	161,606	35,557	23,879	5,126	–677	8,324	36,652
Investment	69,428	26,306	5,324	2,810	–627	11,275	18,782
Loans	84,614	13,409	9,217	2,259	–1,696	–4,631	5,149
Trade credit and other	7,564	–4,158	9,338	57	1,646	–1,680	12,721
Errors and omissions	–32,195	–8,941	–3,296	–11,043	4,958	6,835	–2,546
Current account	–38,151	–26,213	–17,226	–3,582	–5,026	–3,666	–29,500
of which: merchandise trade (fob)	*1,865*	*–910*	*–5,794*	*5,559*	*–805*	*4,040*	*3,000*

(1) Estimates, based on provisional foreign exchange and customs data. – (2) At constant prices and exchange rates. A minus sign indicates an increase in official reserves, i.e. an improvement in the net external position of the central bank (Bank of Italy and Italian Foreign Exchange Office).

Last year saw important changes in the pattern of the balance of payments. The worsening of the current account deficit eased during the year, while exports of non-bank capital resident operators continued at a high level until August. Inflows of foreign capital continued, but dimished rapidly, while in September there was a large net outflow of bank capital for the first time since 1985.

3. Currency flows between June and September 1992: resident households and non-bank companies and non-residents

In the five months from January to the end of May the official reserves fell by just over 6 trillion lire at constant exchange rates; the ouflow was nearly 23 trillion lire in the three months from June to August and close to 30 trillion lire in September alone, the month in which the currency crisis reached its height. As noted above, the reserves recovered by more than 26 trillion lire in the final quarter of the year.

The most turbulent phase of the crisis came in the period between two referendums on the Maastricht Treaty, those held in Denmark in June and in France in September. The analysis that follows focuses on the behaviour of operators during these four months, as revealed by balance-of-payments data. This section is concerned with resident households and non-bank companies and non-residents, and the next with the Italian banking system.

Current account transactions produced a deficit of about 8.5 trillion lire over the four months in question, only slightly more than in the same period a year earlier. The *fob* trade account, however, showed a surplus of almost 5 trillion lire.

In previous periods of currency unrest companies wishing to transfer resources abroad had exploited leads and lags, bringing forward payments for imports and deferring receipts for exports. Such operations were less rigidly regulated than purely financial transactions and were within the reach of small and less sophisticated firms. With the removal of capital controls and wider use of international financial instruments, this option has declined in importance; between June and September of last year outflows via this channel totaled 7 trillion lire, 3 trillion lire more than in the corresponding period of 1991.

Portfolio investment by households and resident companies produced a larger outflow of 15.5 trillion lire, and the latter also made net direct investments abroad totaling 5.5 trillion lire. The underlying causes of the substantial outflow of domestic capital in recent years (portfolio adjustment after years of exchange controls and the internationalization of production) certainly continued to operate in 1992 and account for part of these outflows. Other factors that presumably had an influence from June onwards were expectations of a depreciation of the lira, fears of foreign exchange restrictions and other taxes on financial assets, and a general loss of confidence that inextricably linked the currency crisis to that in the government securities market. On the other hand, many firms continued to take out foreign currency loans with resident banks, often without hedging the exchange risk (see below). Although these transactions do not appear in the balance of payments as they take place between residents, they point to widespread business expectations of a stable lira exchange rate.

By contrast, the confidence in the outlook for the Italian economy, which had previously encouraged foreign investors to make investments and loans appears to have evaporated during the period. In the four months under consideration, the net inflow of funds came to a halt, and September saw a small net outflow.

4. Resident banks

Movements of bank capital, that is the flows recorded in the balance of payments under "resident banks" (defined as Italian banks, excluding their foreign branches, and the Italian branches of foreign banks), continued to give rise to net inflows until August, albeit at a declining rate (50.2 trillion lire in the first eight months of the year); by contrast, in September there was a net outflow of just under 26 trillion lire. In order to understand this swing, which accounted for half of the net decrease in the reserves in the four-month period, it is necessary to examine the changes in all the items of the banks' balance sheets: not only the change in their external positions (which, at constant exchange rates, coincides with net movements of bank capital) but also those in their domestic positions in lire and foreign currency and in their forward purchases and sales of foreign exchange.

Table 2 shows the changes in the main balance sheet items of resident banks, including the branches of foreign banks, for each month from June to September, at constant exchange rates but not seasonally adjusted.[1] The reconstruction is based on prudential returns and involves estimates and approximations, particularly in the calculation of the exchange rate adjustments to domestic and external foreign currency assets and liabilities. Consequently, the variations in the balance sheet items do not tally in any of the four months under consideration. The discrepancy is small in June, July and August, but caution is required when interpreting the data for the critical month of September, since the balancing item is more than 6.6 trillion lire.

Table 2 shows that most of the change in the banks' overall external position stemmed from foreign currency items. In the three months from June to August the banks increased both their net foreign currency fund-raising abroad and their foreign currency lending to residents. If customers had been averse to exchange risk, they ought to have hedged the increasing exposure, but the data available suggest they did not do so, at least with Italian banks, whose forward sales of foreign currency to residents remained broadly unchanged. Assuming that the risk was not hedged by means of domestic currency swaps,[2] which are not recorded in the "forward commitments" item, Italian businesses must have gone long in lire in the expectation that the exchange rate would hold firm, given that uncovered interest rates on foreign currencies were far lower than those on the lira.

The outflow of bank capital in September was largely the result of a reduction of almost 23.5 trillion lire in domestic banks' net external foreign currency liabilities, attributable to an increase of 11.7 trillion lire in assets and a comparable decline in liabilities. Just over a quarter of the reduction in their net external foreign currency liabilities (vis-à-vis non-residents) was offset by a 6.6 trillion lira increase in their net domestic foreign currency liabilities (vis-à-vis residents), due not to a decline in assets but to a rise in liabilities. One possible explanation for this is that, as expectations of a depreciation of the lira strengthened, exporters did not convert all of their foreign currency receipts into lire, but deposited part in foreign currency accounts,[3] and that investors replaced lira assets (such as government securities) with foreign currency deposits.

Banks' domestic liabilities in lire increased even more, rising by more than 33 trillion lire, of which 20 trillion consisted of customer deposits[4] and 13 trillion of liabilities vis-à-vis the Bank of Italy, which thereby offset part of the monetary base destroyed by the outflow of funds, thus averting a collapse of the financial markets and the payment system. Only a small part of the banks' additional funds (just over 8 trillion lire) was used to finance conventional lira loans to resident customers or the purchase of lira-denominated securities, since the deterioration in economic conditions had caused the demand for loans to flag and there was the spectre of capital losses on government securities. The banks therefore used a sizable part of the funds they raised in September to reduce their net external liabilities. Overall, they increased their net liabilities in lire and reduced those in foreign currency. Nonetheless, this change in their spot position was almost entirely offset by an increase in their net forward foreign currency liabilities, a change that is not apparent in the balance of payments: their net commitments to deliver foreign currency against lire, mostly vis-à-vis non-residents, rose by more than 17 trillion lire.

The foregoing figures show that in September the Italian banking system as a whole did not take a short position in lire, which would have implied scope for exchange gains in the event of a devaluation; in fact, the increase in the banks' combined spot and forward foreign currency position in that month was small, amounting to less than 500 billion lire.

Table 2

Variations in the banks' assets and liabilities at constant exchange rates (1)

	1992			
	June	July	August	September
Foreign position (2)	**–7,882**	**–8,591**	**–2,601**	**25,553**
In lire	**77**	**–1,625**	**–628**	**2,112**
Assets	**1,681**	**–1,283**	**–1,037**	**2,975**
With branches abroad	58	–218	–534	761
Other assets	1,623	–1,065	–503	2,214
Liabilities	**1,604**	**342**	**–409**	**863**
Towards branches abroad	245	1,248	–995	1,023
Other liabilities	1,359	–906	586	–160
In foreign currency (a)	**–7,959**	**–6,966**	**–1,973**	**23,441**
Assets	**–1,149**	**–2,158**	**–3,534**	**11,723**
With branches abroad	1,463	113	–191	3,521
Other assets	–2,612	–2,271	–3,343	8,202
Liabilities	**6,810**	**4,808**	**–1,561**	**–11,718**
Towards branches abroad	2,238	4,109	–584	3,013
Other liabilities	4,572	699	–977	–14,731
Domestic foreign currency position (b)	**1,940**	**10,101**	**–290**	**–6,638**
Assets	**4,410**	**12,979**	**1,789**	**–329**
Loans to customers	2,133	9,207	2,544	–4,047
Other assets	2,277	3,772	–755	3,718
Liabilities	**2,470**	**2,878**	**2,079**	**6,309**
Residents' deposits and accounts	890	1,757	533	3,464
Other liabilities	1,580	1,121	1,546	2,845
Domestic lira position	**3,840**	**–1,215**	**1,373**	**–12,275**
Assets	**32,904**	**–29,364**	**–12,355**	**21,020**
Lending	18,855	3,385	–13,839	4,755
Securities	5,203	–22,606	8,895	3,538
Other	8,846	–10,143	–7,411	12,727
Liabilities	**29,064**	**–28,149**	**–13,728**	**33,295**
Statistical discrepancy (3)	**2,102**	**–295**	**1,518**	**–6,640**
Forward commitments against lire (c) (4)	**4,414**	**–4,007**	**–3,002**	**–17,251**
Assets (foreign exchange receivable)	**26,219**	**–860**	**–5,811**	**11,991**
With residents	3,063	–2,682	–317	9,698
With non-residents	23,156	1,822	–5,494	2,293
Liabilities (foreign exchange for delivery)	**21,805**	**3,147**	**–2,809**	**29,242**
Towards residents	1,789	–2,677	–921	7,196
Towards non-residents	20,016	5,824	–1,888	22,046
Spot and forward position in foreign currency (a+b+c)	**–1,605**	**–872**	**–5,265**	**–448**

(1) Including the Italian branches of foreign banks. Estimated data, not seasonally adjusted, at end-September exchange rates. – (2) A minus sign indicates an inflow of bank capital. – (3) A minus sign indicates a larger increase in assets than in liabilities. – (4) Including 2-day commitments.

One factor in the banks' net repayment of external foreign currency liabilities in September was probably the contraction and greater selectivity of the supply of international interbank deposits as a result of that market's growing concern about credit risk in the last few years.[5] Market operators report that foreign banks have confined their business with Italian banks almost exclusively to short-term transactions; they have avoided medium and long-term business, partly as a reaction to the Federconsorzi and EFIM bankruptcies.

A further possible explanation relates to arbitrage operations in lire. The rising cost of hedging foreign currency funds may have induced banks to repay liabilities whose total cost, comprising the forward discount on the lira in addition to interest, exceeded the banks' prime rate on lira funds. Another factor may have been the desire of foreign banks, finance houses and corporate treasurers to sell lire short in anticipation of a devaluation or to hedge the exchange risk on instruments they did not wish to sell, such as Italian government securities. Such operators could sell lire forward or borrow lire to be converted into foreign currency spot. Both operations increase the demand for Eurolire, pushing up interest rates. Since Italian banks are the principal source of lire in the Euromarket, the domestic interbank rate also rise; peaks of demand from abroad and fears of the reintroduction of exchange controls can cause Eurolira rates to rise so rapidly that the link between the Euromarket and the domestic market is severed, with the domestic rate struggling to keep up with the Eurorate, as occurred at times in September. The attractiveness of arbitrage operations in lire is confirmed by the interest rate differential that opened between both Euro- and domestic interbank rates and other lira rates, on both assets (loans to prime customers and government securities) and liabilities (deposits and central bank refinancing).

In such a situation, Italian banks as a whole stand to gain from investing their additional lira funds in the Eurocurrency market. The most widely used instrument for this is the swap,[6] whereby the Italian bank transfers lire to its foreign counterparty and either records a new foreign currency loan in its balance sheet or reduces an existing debt; the currency obtained in exchange for lire may, for example, be deposited with the same foreign bank or used to extinguish an existing foreign currency liability. The bank then includes the forward part of the swap in the off-balance-sheet item "foreign exchange for delivery". The foreign counterparty obtains liquid funds in lire and is in a position to go short in the currency by selling it spot with the intention of repurchasing it after the expected depreciation. The operation is advantageous when the expected exchange gain is greater than the cost represented by the interest rate for Eurolire.

If the expectation of a depreciation relates to a specific date, as in the case of the French referendum of 20 September, the capital gain resulting from an exchange rate variation (expressed as an annual yield) increases as the date draws closer. For example, the seller of a currency who foresees a 10 per cent devaluation a week later expects an annual gross return on the order of 500 per cent. If the expectation has a low degree of uncertainty, the speculator will be deterred only if the cost of the operation (represented by the Euromarket interest rate for the currency, disregarding transaction costs) approaches this order of magnitude. In the case of the lira, any attempt to use this instrument to defuse speculation would have required money market rates to be raised at least to that level. However, the signal this would have sent to the market would have been convincing only if there had also been general confidence that incisive structural adjustment measures were about to be taken. Otherwise, such a move might well have been counterproductive and had serious repercussions on the government securities market, where there was a danger of a collapse in demand. Other European countries that followed this route were eventually unable to avoid a devaluation of their currency, even without the additional handicap of having to manage a large public debt.

5. Conclusions

This article has reviewed the variations in the principal items of the Italian balance of payments over the four months of the lira crisis to its culmination in September 1992 and placed them in the context of the medium and long-term trends that had emerged over the last few years.

The outflow of official reserves between June and August was due mainly to a contraction in the inflows of foreign loans and investment that had previously offset not only the current account deficit but also the outflows of Italian capital caused by the adjustment of financial portfolios following the liberalization of capital movements and the increasing internationalization of Italian businesses. The drying-up of net capital inflows from abroad was a clear sign of foreign investors' loss of confidence in the prospects of restoring the health of the Italian economy.

In September, exports of capital by resident financial intermediaries, especially banks, were the main counterpart to the outflow of official reserves. On the whole, the capital outflows were not due to speculation by the banks, as shown by their not having sold the lira short; excluding domestic currency swaps, their combined spot and forward exchange position in lire remained long. The cause of the outflow of funds was demand from foreign operators, presumably for speculative purposes; it was met by Italian banks attracted by the high interest rates they were able to obtain in the international interbank market.

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1 The analysis concentrates on banks and excludes special credit institutions, since the changes in the banks' external position represent most of the change for the banking system as a whole.

2 A domestic currency swap is a contract between residents basically involving the settlement in lire of the difference between the exchange rate agreed at the time of concluding the contract and the market exchange rate on the expiry date.

3 The other domestic foreign currency liabilities are loans received, certificates of deposit and, above all, items in transit between banks.

4 In fact, this was less than normal; on a seasonally-adjusted basis, deposits declined.

5 Cf. Bank for International Settlements, *Recent Developments in International Interbank Relations*, Basle, October 1992.

6 In the month in question this involved selling lire spot against foreign currency at the current exchange rate, with an agreement to repurchase them at the same rate adjusted for the discount of the lira on the forward market.

Speeches

Large-value payment systems: a European perspective

Address by Tommaso Padoa-Schioppa, Deputy Director General, to the 12th Payment Systems International Conference

London, 6 October 1992

I. Introduction

1. The increase in intra-EC cross-border transactions fostered by the single market, and the prospect of complementing the single market with a single currency and a European Central Bank, raise the problem of an integrated EC payment system for both the banking community and EC central bankers.

In my remarks I shall look at the major issues in this field and the direction in which EC central banks are moving. In doing so, I shall build on the insights provided in the two Reports of the Ad Hoc Working Group on EC Payment Systems that the Committee of Governors set up in January 1991. The Reports were approved by the Governors last spring. They are concerned respectively with "Issues of common concern to EC central banks in the field of payment systems" ("Main Report") and "Payment Systems in EC Member States" ("Blue Book").

The two Reports have only just been made available to banks, so this conference is the first opportunity I have had to present the results that the Group produced in a year of intense and fruitful cooperation. Central banks and commercial banks will surely have further discussions about the issues dealt with in the Reports, and the banking community will certainly wish to reflect further on these matters and to present its views.

My remarks are arranged as follows. I shall first spend a few words on central banks and large-value payment systems from a domestic standpoint. I shall then turn to the EC perspective and present the origin, content and possible developments of work undertaken under the aegis of the EC Committee of Governors, focusing on the three main lines of action proposed by the Main Report of the Group on the basis of the comparative analysis contained in the Blue Book.

II. Central banks and large-value payment systems

2. As regards the domestic aspects of central banks and large-value payment systems, all I want to do is briefly recall two important points that have to be borne in mind when turning to the EC perspective. These are: the complementarity of the functions of commercial and central banks in ensuring the proper working of a payment system and the emerging need to reconsider the structure of large-value payment systems..

3. The main feature of payment systems based on fiat money is the co-existence of two coordinated and complementary functions: intermediation and guarantee. The former is mainly performed by

financial intermediaries, primarily banks, the latter is the ultimate concern of central banks.

Commercial banks have developed the intermediation function by financing their assets with liabilities that can be used to make payments. The issue of a liability (legal tender) that any debtor can use to discharge obligations definitively is a crucial part of the guarantee function performed by central banks. The other is that of preserving the soundness of bank money and the public's confidence in its convertibility into legal tender. This has been done through the prudential supervision of credit institutions and through the direct provision – by the central bank – of payment services similar to those that commercial banks supply to individuals and firms.

4. The development of supervisory techniques has made a collapse of public confidence in banks' assets very unlikely. By contrast, systemic risk has become more serious in interbank payments, primarily as a result of the increased volume and interdependence of the operations handled on the basis of a given amount of central bank money.

The stability of large-value payment systems is a major concern for central banks today. Let me describe the main features of the problem. In most developed countries interbank payments are processed in two ways: gross settlement in commercial bank money on correspondent accounts; and netting, with settlement in central bank money. The reason why net settlement systems have come to play a predominant role is that such systems provide end-of-day finality while allowing reserves to be economized. This is, however, also the reason for their being risky. Indeed, the very nature of the netting procedure requires, and permits, the concentration in a given point of time of a vast number of large-value payments, with the successful execution of each one depending crucially on that of all the others. Moreover, in net settlement systems, participants accumulate debtor positions that far exceed not only the amount of their settlement reserves but also their capital reserves. In the event of default the amounts involved would be huge. And the activation of "unwinding" clauses could result in the failure of just one participant having a domino effect and causing other participants to default. The potentially disruptive impact of a settlement failure has been estimated in the United States. In the case of CHIPS, the worst possible deterioration in a defaulting bank's net position due to a systemic crisis would be 32.4 times its capital.

The enormous volume of foreign exchange and cross-border securities transactions has further increased these risks. In 1990 the value of transactions handled yearly exceeded the gross national product by a factor of 80 in the United States, 116 in Japan and 46 in the United Kingdom. The volume of payments channelled into clearing systems has expanded explosively. In the present situation the catastrophic potential of applying "unwinding" clauses may lead operators to consider a bail-out by central banks as certain, thereby increasing moral hazard.

Central banks have followed these developments with some concern and acted vigorously to control risk in their national clearing systems. Tighter access requirements, exposure limits, collateralization and loss-sharing arrangements have been introduced or are under study to reduce moral hazard and make it clear to operators that the primary responsibility for risk control and management rests with participants themselves.

The most important means of reducing risk is to be found, however, in the third method of processing large-value interbank payments: the settlement of each individual transaction on the accounts of the central bank. Continuous gross settlement in central bank money has the immense advantage of ensuring immediate finality. On the other hand, until recently it has suffered from the drawback of involving the high cost of holding large non-interest-bearing reserves at central banks and has therefore only developed significantly where central banks have been ready to provide free daylight overdrafts.

Technology has changed all that by dramatically increasing the speed at which deposits at the central bank can be transferred and permitting an almost unlimited increase in the velocity of circulation of central bank deposits, so that transactions can be settled in real time with only a limited amount of total reserves. This has created the conditions for gross settlement on a massive scale. The development of such systems now depends on the willingness of commercial banks to incur an expense in order to reduce risk and central banks being ready to take on a share of the costs by supplying intraday credit at a reasonable price.

The development of gross settlement systems, which have been introduced in several countries and are under study in others, does not mean that they should necessarily be used for all large-value payments. Rather, the challenge payment systems are facing is that of finding the optimal balance between the different methods of processing payments in order to maximize the efficiency and stability of the system as a whole.

III. The EC initiatives

5. Let me now turn to the main topic of my remarks and address the issue of large-value payment systems from the point of view of the overall EC system that is emerging.

The rapid growth of cross-border transactions has taken place within a framework of disparate laws, regulations and technical standards. The overall risk is increased by this heterogeneity and by the fact that the linkages between the various parts of the system are not part of a comprehensive strategy in which the public interest is fully safeguarded.

Central banks have accordingly been prompted to step up their cooperation and to coordinate their international initiatives, both within the framework of the Group of Ten and at the Community level. The initiatives taken within the G-10 have already been illustrated by Governor Angell. After briefly recalling those of the EC Commission, I shall focus my attention on the steps taken under the aegis of the Committee of EC Central Bank Governors.

6. The EC Commission has been mainly concerned with retail payments. In September 1990, the EC Commission published a discussion paper called "Making payments in the internal market". Following that paper, two working groups were set up in March 1991 to study possible improvements in cross-border retail payments within the EC. The main conclusions – concerning such issues as transparency, speed, reliability and costs – are contained in the working document "Easier cross-border payments: breaking down the barriers".

7. The action taken by the Committee of EC Central Bank Governors started in January 1991 with the creation of an Ad Hoc Working Group. The Group, originally set up for one year, carried out an extensive comparative study of EC countries' payment systems and analyzed issues "of common concern", i.e. those that EC central banks should tackle jointly. In addition it reviewed the working of the Ecu clearing and settlement system and promoted the changes needed to bring it into line with the minimum standards set by the Committee on Interbank Netting Schemes (the Lamfalussy Committee).

I shall now concentrate on the work done on the issues of common concern covered by the Main Report. As regards the comparative study, let me just note that the Blue Book will serve as a basic reference work for national payment systems in the EC and that its design and preparation provided several central banks with a valuable opportunity to revise their own approaches in this rapidly evolving area. An earlier, similar, comparative study carried out within the framework of the G-10 was a valuable source of inspiration for the Blue Book.

Coming to the Main Report, I would say that its conclusions represent the first steps on the long journey that could lead to a European payment system. On the basis of this Report, EC central banks will continue their work on payment systems, with measures to facilitate the execution of cross-border payments within the Community and research into ways of moving from today's national payment systems to the new organization required by the final stage of EMU.

The Main Report identifies the principal issues raised by the completion of the single market and the implementation of Economic and Monetary Union. The focus is on large-value payments and the implications for EC central banks. However, in view of the complementary nature of the functions of commercial and central banks in this field, the Report is likely to be valuable for the design of commercial banks' strategies too.

The approach chosen by the Report is to consider the payment system implications of the single market and EMU as part of a single evolutionary process rather than as two unrelated developments. The process involves moving from the present plurality of markets, financial and payment systems, currencies and central banks, via the creation of the single market and the implementation of stage 2 of EMU (with a single market but still a plurality of financial and payment systems, currencies and central banks), to the single market, single currency and single central bank of stage 3.

On the basis of its analysis, the Group has agreed on four lines of action concerning respectively: cooperative oversight of payment systems, establishment and implementation of minimum common features for domestic systems, preparatory work in the area of large-value cross-border payments in the light of of EMU, and the development and oversight of the Ecu clearing and settlement system. I shall not discuss the Ecu clearing system, but focus on the first three points.

IV. Cooperative oversight of payment systems in EC countries

8. The completion of the single market is generating forces that will push towards more unified payment systems within the Community.

The creation of a single market for payment services implies fair and open access for the credit institutions of one Community country to the payment systems of the others. On the other hand, such fair and open access may pose new problems in domestic payment systems.

The Second Banking Directive provides that credit institutions may request to participate directly in the domestic system of another member state in which they do not have either their headquarters or branches. As a result, the central bank of that country could lack some of the information it usually obtains from commercial banks for the purpose of ensuring the smooth functioning of its domestic clearing system. This lack of adequate information could in turn make it more difficult for the central bank, and the other participants, to avert and efficiently manage financial strains.

The issue of supervisory responsibility – especially as regards the separation between the supervisory authority and the settlement agent of a netting scheme as a result of the geographical dispersion of the participants – is one of the major problems raised by international (multicurrency and off-shore) netting schemes. As you will remember, this issue was addressed by the Lamfalussy Committee, which recommended several principles to govern the cooperative oversight of such schemes. In this respect, the integration of financial markets tends to blur the distinction between domestic and international payment systems. Indeed, domestic systems will increasingly be faced with some of the problems typical of international systems.

The Working Group concluded that, in view of the large increase in cross-border transactions and the willingness of banks to operate worldwide through branches and subsidiaries, *"co-operative oversight of payment systems in EC countries should be established according to agreed principles. A certain degree of co-operation will be required for cross-border systems as well as for cross-border participation in a domestic system."* This is the first line of action proposed by the Main Report.

V. The establishment of minimum common features

9. As for the second line of action, the completion of the single market will further increase the volume and value of cross-border transactions and thus heighten the need for stable and efficient links among domestic payment systems.

The comparative analysis conducted by the Working Group and published in the Blue Book reveals large differences among large-value systems, especially as regards the role of central banks, settlement arrangements and whether payments are provisional or final.

The Main Report identifies six sets of regulations and practices that are of critical importance for the smooth functioning of linkages: conditions of access; risk management policies; legal arrangements; technical standards; working hours of systems; and the pricing of central bank payment services.

In the case of access, the spectrum ranges from the United Kingdom, where only 13 clearing banks are allowed to settle their final net balances at the central bank, to Italy, where all the 288 banks participating in the clearing systems also participate directly in the central bank settlement procedure.

As to risk management, only five countries operate gross settlement systems (including France, where the system will come into operation next year) and most countries do not have a specialized large-value settlement system. Very few countries have a fully-fledged risk management policy.

The legal enforceability of netting agreements is uncertain in all twelve member states. This point is particularly important in those countries (such as Belgium, Italy, the Netherlands and possibly France) where bankruptcy laws retroactively render transactions ineffective from 0:00 am on the date the order to close an institution is issued.

The business hours of central bank settlement services vary considerably among the member states: with nine different closing times and a maximum difference of three hours between those of Germany and France.

10. What are the main consequences of all these differences?

First, access to several systems operating under different rules might enable market participants to exploit disparities in national regulatory requirements. Such regulatory arbitrage is undesirable if it causes one country's operators to make payments via another country's system with less stringent risk management standards. Not only might this adversely affect the functioning of that country's domestic payment system, but it could also undermine the stability and integrity of the EC financial system.

Moreover, the wide differences between domestic payment systems mean they cannot be linked at present without additional liquidity and credit risks being created. In fact, linking completely unharmonized systems could make each one vulnerable to settlement problems arising in another. Thus, the home central bank of a bank participating in another country's system would need to be sure that a default in that system was unlikely to have major consequences for the bank, with knock-on effects for the home payment system. Equally, the host central bank would need to be sure that a major default in another country's scheme would not trigger a crisis in its own payment system. In this situation, the soundness of the overall system ultimately depends on the strength of the weakest link in the chain.

Finally, unharmonized technical features may impede cross-border access to some domestic systems, or adversely affect the smoothness of payment transactions and thus cause technical failures or delays in the settlement of some transactions.

To cope with these problems, the Group concluded that *"EC central banks should make sure that as far as necessary (in accordance with the principle of subsidiarity) all large-value interbank funds transfer systems have certain minimum common features on which the security and integrity of the system as a whole depend. This should include, wherever appropriate, use of gross settlement systems."*

This second line of action is no doubt the one to which the Working Group will need to devote most of its efforts in the next one or two years. Let me therefore spend a few more words on it, before turning to the third line of action.

VI. The creation of a single market for payment services

11. There is an analogy between the work to be done in the field of payment systems and the work that led to the design and implementation of the single market for banking services.

The problem then was to identify a set of common rules for prudential supervision and the attribution of rights and duties among both credit institutions and supervisory authorities, so as to enable all EC banks to operate freely throughout the Community under adequate prudential controls. The same objective must now be pursued in the field of payment services. The fact that in most member states a banking licence does not automatically entitle the holder to participate fully in large-value interbank payment systems shows that the liberalization of capital movements and the provision of the Second Banking Directive enabling EC credit institutions to supply services, including "money transmission services", in all the member states are necessary but not sufficient steps on the road to an integrated European payment industry. The special features of payment systems call for further action in such areas as risk management, access criteria, technology and law.

12. Today's disparities between national systems, due in part to differences in institutional features and operating practices, make harmonization appear a somewhat complicated issue.

Closer examination of the problem suggests, however, that the difficulties may not be unsurmountable. In the key field of financial risk management and the role of central bank money in the domestic large-value payment system, almost every central bank is seeking to achieve a more satisfactory balance between gross and net settlement systems and to strengthen the safety measures applied to netting systems, thereby enhancing the finality of payments. Some countries, such as the United Kingdom and Belgium, are considering the creation of a gross settlement system and others, such as Greece, are designing a special large-value funds transfer system. Several countries are also studying measures to improve risk control within gross and net settlement systems. The restructuring of domestic systems and the establishment of common rules may well be mutually reinforcing, as they are really two aspects of a single process.

The rules and practices governing access to payment systems are very rigid. The historical evolution and structure of national financial systems have led to central banks playing very different roles in their respective payment systems. Accordingly, harmonization should perhaps seek to identify some clear and simple rules suited to the member states' different domestic needs, rather than aim at a high degree of abstract homogeneity.

The legal framework and technical infrastructure of payment systems are also marked by a high degree of rigidity owing both to the stickiness of legislative procedures and to the high cost of technological change. However, existing legislation generally refers to obsolete structures and is increasingly inadequate to solve the legal problems posed by a changed reality. Even apart from the requirements of harmonization, the member states will have to tackle the common problems inherent in devising a legal framework that is consistent with the new operational context and permits the safe and efficient evolution of the system.

The same applies to technical structures, which need to be modified as the new systems are installed on the basis of new technologies and previously agreed common standards.

In conclusion, analysis sheds a new light on the nature of the process of creating a single market for payment services. Rather than harmonize the existing framework, EC countries are really required to cooperate in the design and implementation of a more modern and safer system that takes account of both technological change and the process of European integration.

VII. Design of a single EC payment system

13. I now come to the third line of action indicated in the Main Report, i.e. work related to EMU, rather than the single market. Indeed, it is hard to imagine the implementation of the European System of Central Banks not being accompanied by the creation of a European system for large-value payments that is as fast and sound as the most advanced domestic systems that will be in existence by then.

The Working Group considered two options: first, to design and implement a new transitional, ad hoc, system to deal with the problems of stage 2 of EMU, marked by a single market and a plurality of currencies and central banks; or, alternatively, to concentrate efforts and resources on the design and implementation of the system required for stage 3.

14. The first option, i.e. the creation of a transitional EC-wide multi-currency payment system, would probably develop into a project for an international netting scheme resembling those studied in the Angell and Lamfalussy Reports. Such a solution would facilitate the joint management of financial risk (including Herstatt risk) and thus foster coordination among EC central banks in the short term. However, the Working Group saw serious drawbacks in this approach. Designing and constructing a new system is a lengthy and costly process, requiring between 5 and 7 years. Accordingly, an ad hoc transitional system of this sort would not be an efficient solution. As stage 2 may be shorter than the time required to develop an advanced new system, there would be little advantage in devoting time and financial resources to a system that would probably be obsolete before the pay-back period was over.

15. The Group has therefore recommended the second option. This means that the work on payment systems required by EMU should focus on stage 3, i.e. it should refer to the stage in which there will be a single currency and a single central bank. Given the long lead time involved in establishing a secure, stable and efficient large-value payment system for the EC, this work should begin soon. This would also help the EC banking community to avoid false starts and to concentrate efforts and resources on a project of long-term utility.

The third line of action indicated by the Report thus states that *"preparatory work on the large-value interbank payment system required for a successful and safe start of stage three of EMU needs to begin in the near future."*

16. The creation of a single European payment system will be a long and complex endeavour. It will have to meet potentially conflicting requirements, such as the need for decentralization, embodied in the principle of subsidiarity set out in the ESCB's Statute, and the notion of indivisibility in the conduct of a single monetary policy. It will also have to minimize investment and operational costs and financial risks.

The Working Group was convinced that the improvements in domestic systems that will come from following the first two lines of action identified in the Main Report (i.e. cooperative oversight by EC central banks and minimum common features for EC domestic payment systems) should meet the needs of stage 2 of EMU. In the meantime, identifying a set of common features to be harmonized and implementing a set of common rules for domestic payment systems – partly as a result of from the completion of the single market – will prepare the ground for a preliminary design of the structure of the single European payment system.

The starting point for the definition of the main features of the European payment system, which will be basically a "domestic" payment system, is necessarily the comparative analysis of today's domestic payment systems. The Blue Book provides the main reference in this respect. On the other hand, a conceptual effort will be necessary to identify the features such a system should have, independently of today's domestic systems.

17. This whole process cannot involve the central banks alone. The payment services industry is one in which central and commercial banks have complementary roles and indeed form a "system". Cooperation with the banking community and between commercial banks will be necessary. The process will also provide an important stimulus for commercial banks. Just as the debate on the Second Banking Directive has stimulated and accelerated the work of many banks, groups of banks and banking associations, so the payment system implications of the single market and the prospect of EMU will both foster sharper competition and require cooperative efforts.

VIII. Conclusions

16. In closing let me put the issues I have dealt with in a slightly broader perspective.

The question that inevitably arises at this point is whether the foreign exchange and currency developments of the last few weeks should change the assumptions and prospects underlying the work we have done, and therefore whether they should make us reconsider the lines of action described earlier. My answer is a well pondered, but unambiguous "No". It is based on three considerations.

First, the exceptional turbulence in foreign exchange markets – the most severe ever seen in terms of the amounts involved – is in itself a sign of the high degree of integration and interdependence financial markets have reached. The need to tackle the implications of this reality for payment systems has been reinforced by the events of recent weeks.

Second, the turbulence has highlighted not only the need for, but also the weaknesses of close cooperation among national monetary authorities. Payment systems – where such cooperation is effective, matter-of-fact, uninfluenced by ideological or doctrinaire prejudices – are a propitious ground for the strengthening of such cooperation.

Third, turbulence is bound to come to an end. When the present storm blows over and we can reflect on it calmly, I am sure we will conclude that the basic analyses underpinning the project to create the single market and to complement it with a single monetary policy and a single currency have been confirmed by the events of these weeks.

The role and limits of monetary policy

Lecture delivered by the Deputy Director General, Antonio Fazio,
at the ceremony inaugurating the Department of Economic Sciences of the University of Bologna

Bologna, 26 November 1992

In his classic paper, "The Role of Monetary Policy", published in 1968, Milton Friedman argued that attempts to use monetary policy to keep interest rates and unemployment at an artificially low level were bound to fail owing to the effects of excessive monetary expansion on expected inflation and the consequent feedback effects on interest rates and employment. In this argument we can trace a series of assumptions and indications of classical economic theory: Wicksell on the natural rate of interest; Irving Fisher on the relationship between interest rates and prices; and the quantity theory of money, which Friedman helped to revive and which posits a close and direct relationship between the money stock and the price level.

These positions did not appear to be particularly compelling for the orientation of economic policy in the seventies, when the behaviour of prices seemed to be determined primarily by cost factors.

The increased openness of economies in the eighties, particularly on the financial front, threw a new and different light on the matter. With the so-called globalization of markets, exchange rates respond to monetary and financial factors much more than in the past; in turn, their fluctuations tend to be reflected significantly in costs and prices.

1. Academic disputes and economic policies

As I have just recalled, Friedman's essay was written in 1968, the period of the polemics between monetarists and Keynesians; bitter at the academic level, these disputes also had major implications for the formulation of economic policy.

According to the monetarist view of the role and methods of monetary policy, the monetary authorities should simply attempt to establish a suitable rate of money supply growth through the working of the money multiplier. In the end, it is argued, the only effect of this growth is on prices, and these in turn are considered to be sufficiently flexible. The real growth of the economy is considered to be determined basically by that of productive capacity.

The Keynesian paradigm, by considering global demand as logically coming before supply in determining the level of economic activity, constitutes a scientific revolution – as defined by Kuhn – with respect to classical economic theory. It supplements and goes beyond Schumpeter's idea of the role of innovative investment in development and its relationship with credit; indeed, given less than full employment, new investments do not divert resources from other sectors.

Distinguishing between the operators that respectively decide investment spending and saving permits a clearer understanding of the role of the various participants in the economic system. In particular, it allows a deeper analysis of the relationship between investment and the terms on which credit is supplied, on the one hand, and of that between saving and the demand for money, securities and other financial assets, on the other. The level and structure of interest rates are a function of this allocation of savings. Monetary policy enters into the model via interest rates and the supply of base money, the terms on which credit is supplied and the amount of money in the economy.

Seen in this light, credit plays a central role in the functioning of the economy: it is matched by firms' real and financial investments and by the budget deficit, that is the components of demand that are most dynamic and influential in determining the level of economic activity, the balance of payments and prices.

If there was a shortcoming in the Keynesian analysis, or at least in the most widely divulged versions, it was to have focused excessively on flows, with scant attention given to stocks, particularly the money stock and the stock of financial assets. I have taken this observation straight from the teaching of Professor Modigliani, who in the early sixties was seeking to take more correct account of the effects of stocks of money and securities in the analyses to which he had already made significant contributions.

Patinkin had already offered a rigorous analysis of the relationship between stocks and flows in 1956, in *Money, Interest, and Prices*.

In the late fifties and in the sixties the problem of the importance of stocks of financial wealth in economic equilibrium re-emerged in the Radcliffe Report, Tobin's research and the *New Cambridge Theory* of the balance of payments. The latter can be viewed as an institutionally more articulated version of a monetary theory of the balance of payments.

The most significant contribution of the monetarist "faction" to the analytical dispute and, more importantly, to the formulation of economic policy was the revival of interest in the stock of money and misgivings about the role of interest rates as the only indicator of the stance of monetary policy. In point of fact, in some situations interest rates may reflect a demand for credit and money fueled by inflationary expectations and so may be quite high even when monetary policy is accommodating.

The turning-point for economic policy came towards the close of the seventies, with the return to targeting of monetary base and money, first in the United States and then in Europe. In the United States direct controls were also applied on credit in some periods. By the early eighties, the attempt to counter inflation through more active use of monetary policy had already led to a generalized rise in interest rates in nominal terms and to their having positive values in real terms.

Economic policy in the leading industrial countries was effectively dominated throughout the decade by the objective of stabilization, in part as a reaction to the persistent inflation of the seventies.

Attempts were made to curb the size of budgets and public sector deficits, which had grown constantly during the sixties and seventies. The aim of restrictive fiscal policies was not to reduce excessive levels of demand, since cyclical conditions were comparatively weak everywhere, but to contribute to disinflation and channel more resources towards the private sector, which was considered to use them more productively. The first visible effect, however, was that a considerable volume of resources remained idle.

Coupled with high rates of interest, these policies resulted in moderate growth in economic activity and slower inflation. Rising unemployment curbed wage pressures everywhere. Owing to the debt accumulated in the previous decade, demand from the developing countries diminished. Weaker demand and slower growth worldwide brought oil prices down and curbed those for raw materials.

In the United States economic growth was stimulated during the eighties by an increase in the public sector deficit. Indeed, the adjustment started with a reduction in taxation. Domestic demand slowed down later, towards the end of the decade, owing to an excess of indebtedness in both the productive sector and the household sector. In the United Kingdom the sharp reduction in the budget and in the deficit produced a considerable slowdown in the growth of the economy and a fall in employment; at the same time a marked expansion in credit had a negative impact on the rate of private saving, on the balance of payments and on inflation.

2. The nature of money

Let us imagine a model in which there is a public sector, the State, with responsibility for public spending and taxation; a private sector with entrepreneurs and consumers who produce, supply and demand goods and services; and markets in which the supply of and the demand for goods and services, as well as securities, reach equilibrium at prices quoted in money.

In such a setting, economic theory has clarified that money may consist of a token or sign (as understood by classical philosophy), that is a good which in itself does not have any intrinsic (material) value.

The quantity of this type of money, its nominal value, must be set, or at least controlled, by forces outside the markets. This is a necessary condition for money units of this type to have a definite value.

In Chapter XIII of his *Value and Capital*, dedicated to "Interest and Money", Hicks questions the distinction between absolutely safe short-term securities, on the one hand, and money, on the other. Money yields nothing in terms of interest precisely because it is wholly acceptable by all and sundry or, in other words, because of its perfect liquidity.

However, in real situations, for money to be generally acceptable it must be issued and guaranteed by an authority that not only is capable of setting a limit on the amount in circulation but also has the necessary authority to do so and is always able to honour its own commitments. Money circulates in the economy essentially by virtue of the fact that it substantially embodies a claim on the issuer. It is the prime example of a token, whether metal or paper, that incorporates a right, a value.

Since every private operator may, at least in principle, go out of business, this perfect liquidity of fiat money must be backed either by ample reserves of metal – though in extreme cases this would eliminate the fiduciary nature of money – or by an authority – the State – which, thanks mainly to its power to levy taxes, can guarantee all the commitments assumed.

There is a long-standing tradition among economic analysts according to which money emerged spontaneously from a barter economy, but historical analysis would seem to indicate a different origin.

The birth of money as we know it today occurred at the start of the sixth century B.C. when some of the more politically organized communities of Asia Minor – and, later, of Greece – wrought natural alloys of gold and silver (electrum) into standard weights and used them for making payments.

The practice spread swiftly and was used to finance the expenses of the *poleis*. The standard units issued also came to be accepted by the communities for the payment of taxes. In this way a monetary circulation became established and proved useful for effecting payments between parties other than the public authorities.

The intrinsic value required of metal money in traditional economic theory can now be replaced, at least in part, by the fact that coins incorporate a claim on the State.

The identification of money with political power has historically always been very close. Periods of monetary crisis are associated with an injudicious use of monetary power; more often, with a political crisis affecting the authority on which the money is based. In such periods, and in any case outside the States, only money having an intrinsic value was used.

It is quite possible to picture the process by which units of money whose legitimacy rested essentially on the value of their component metals evolved into those in circulation today. A different view of the phenomenon of money, as incorporating a fiduciary element right from the start, makes it easier to understand the consequential evolution that led to modern monetary systems.

3. Banks and issuing institutions

In order to complete the theoretical model described above, it is necessary to define the role of the banking system. By extending credit, the banks create deposits that have a monetary function. The deposits thus created have the same unit value as the money issued by the State and are, in principle, freely exchangeable for the latter on request.

If monetary units are to have a definite value, an institutional and functional relationship is also necessary between the quantity of money created by, or on behalf of, the State and the total of bank loans and deposits.

Modern banking owes its origin to the medieval bankers who, first in Italy and then in other leading European markets and cities, issued notes certifying deposits of precious metals. The certificates circulated "embodying" the value of the metals deposited; they earned no interest but served as support for exchange and credit operations between different cities and markets. Later they were issued against loans granted by bankers to merchants and entrepreneurs and to princes and sovereigns.

Hawtrey's *The Art of Central Banking*, published in 1932 at the height of the economic and financial crisis, deals at length with the emergence during the nineteenth century of the Bank of England's role as lender of last resort vis-à-vis the other banks and the London money market. On several occasions the government requested the Bank's intervention to stabilize the value of the pound in terms of gold. The status of issuing bank – in other words, the authority to issue bank notes that were legal tender – was essential to the performance of these tasks. Bank notes circulated as a substitute for metal in certain types of payment and their value was generally guaranteed by reserves of gold. Several times when liquidity was scarce, increases in the note circulation in excess of the amounts fixed by statute in relation to the gold reserves were authorized and implicitly guaranteed by the government and, in some cases, by Parliament.

The evolution of the English banking system and the Bank of England's emergence as the central bank exemplify the configuration adopted by banking systems at a certain stage of their development. Two levels of banking developed: one for the performance of monetary functions fundamental to the economy and the other, consisting of banks and credit institutions, answering to the immediate financing needs of industry and commerce.

The Federal Reserve System of the United States was created in 1913 to act as a clearing house for operators in the money market – mainly commercial banks – and to supply liquidity to these banks to help them overcome seasonal or cyclical difficulties. The "System" took upon itself the performance of tasks in the public interest, namely the regulation of the monetary circulation and the related control of certain banking operations, some of which had previously been handled by the Treasury.

Many of the European institutions that we now know as central banks started life as issuing banks and their bank notes were given the status of legal tender. The number of notes in circulation was strictly linked to the gold reserves and special relations existed between these banks and State treasuries.

It is worth recalling that the term "central bank" was first used in academic writings in the early years of this century; its adoption in legal terminology and by operators and politicians is fairly recent.

4. Financial instability

The Great Depression of the thirties was partly due, in the opinion of influential scholars such as Hawtrey and Friedman, to errors and rigidity in the conduct of monetary policy by the authorities and central banks of the leading economies.

In the United States and, later, in other countries, the slump led to the collapse and failure of commercial banks. The contraction in lending to industry and for investment had a depressive impact, which was transmitted to the various sectors of the economy and from one country to another by the multiplier and via international trade.

The close link between the stability of the banking system and the stability of the economy became evident.

The first reaction was to close national frontiers to financial operations and impose restrictions on trade. Legislation was introduced to tighten the regulation of financial intermediaries and markets. New government bodies were set up to monitor and supervise the banking system.

There then emerged the problem of the instability of the quantity of money in circulation, which was now defined as including not only notes and coin but also current accounts with banks. (As far as I know the first author to adopt this definition explicitly in monetary analysis was Keynes, in *A Treatise on Money.*) The close association between growth in lending and monetary policy appeared. It was in this context that the Chicago School, which had always followed a liberal line, put forward the dramatically extreme proposal of introducing a compulsory reserve for commercial banks, equal to 100 per cent of demand deposits, and of suppressing or imposing strict limits on certain other operations.

The period since the Second World War has been marked by steady and significant growth, in conditions of stability, of the economies of those countries now considered developed. Banks of issue have been released from the strict rules tying the quantity of notes in circulation to gold reserves. More generally, control over the economic cycle and concern with growth have been included among the objectives of monetary policy.

Two aspects of the financial evolution of the last ten or fifteen years deserve particular attention. They concern, respectively, the national and international spheres.

The financial deepening of the economy has proceeded without interruption in the developed countries. In 1980 the ratio of households' financial wealth to disposable income was 3.5 in the United States, 2.0 in Japan, 1.7 in the United Kingdom, 1.5 in Germany and 1.1 in Italy. By the end of the decade the ratio had risen to 3.6 in the United States, 3.2 in Japan, 2.7 in the United Kingdom, 1.9 in Germany and 1.7 in Italy. The ratio is tending to rise further, especially in countries with a lower degree of financial deepening. Households' and firms' saving and expenditure decisions are now influenced to a much greater extent by the yield and composition of financial assets.

The international capital markets have also grown considerably in the last fifteen years. Between 1975 and 1980 banks' foreign assets rose from 10.6 to 17 per cent of the aggregate gross national income of the OECD countries; during the eighties this ratio rose to 35 per cent. The Eurobond market grew from 0.5 per cent of OECD gross national income in 1975 to 2.2 per cent in 1980 and to 8.8 per cent at the end of the eighties. As a first approximation, international banking can be considered beyond the control of the monetary authorities and central banks.

The greater structural complexity and development of national and international financial markets increase the need for controls aimed at guaranteeing, or at least fostering, conditions of financial stability.

5. The central bank's balance sheet and control of the economy

The size and composition of the central bank's balance sheet are fundamental for the control of the money and credit aggregates and interest rates. Effective transmission of monetary policy impulses also depends on the organization and efficiency of the financial markets.

Table 1 shows total central bank assets for five countries in different periods in relation to a) the money supply, which is a measure of the consolidated balance sheet of the banking system, and b) gross domestic product. The figures reflect the economy's demand for liquidity, but also important institutional differences in the financial systems considered. It can be seen that both ratios were highest in Italy and France and lowest in the United States and the United Kingdom. The situation did not change over time except in the United Kingdom, where the money supply doubled in relation to GDP in the second half of the eighties, while the ratio of the central bank's assets to GDP remained unchanged.

Table 2 shows various asset and liability items of the central banks as a percentage of gross product in 1989.

On the assets side, more than half of the high figure recorded for Italy is due to the Bank of Italy's financing of the Treasury. On the liabilities side, banks' deposits with the central bank, consisting mostly of compulsory reserves, account for a similarly large share. Given the level of Treasury funding, the reserve requirement makes it possible for the Italian central bank's assets to include some refinancing of the banking system. The volume of claims on the government is also very large for the Federal Reserve System. Refinancing of the private financial system is relatively high in Germany and France. It has also increased considerably in Italy as a result of the decrease in reserves stemming from the recent foreign exchange crisis.

Table 1

Central bank assets in relation to the money supply and GDP
(percentage ratios of annual averages)

	Assets/M2			Assets/GDP			M2/GDP		
	1980-83	1984-87	1988-89	1980-83	1984-87	1988-89	1980-83	1984-87	1988-89
Italy	36.20	34.30	31.70	25.70	22.80	21.30	70.90	66.30	67.30
United States	9.50	9.20	9.50	6.10	6.00	5.90	64.30	65.00	62.60
Germany	21.00	19.90	21.90	11.60	11.60	13.20	55.00	58.50	60.10
United Kingdom	–	19.90	10.50	9.40	8.70	9.60	–	43.70	90.90
France	35.20	30.50	27.50	18.50	16.20	13.40	53.00	52.60	48.90

Sources: Central bank bulletins and IMF, *International Financial Statistics*. For Italy, consolidated balance sheet of the Bank of Italy and the Italian Foreign Exchange Office.

The liabilities of the central bank constitute the reference money, or monetary base. Owing to its qualities, resting on law and long tradition, this type of money is perfectly liquid and is used as a means of payment between individuals, firms and banks.

Table 2

Central bank assets and liabilities in relation to M2
(percentage ratios)

	Italy	United States	Germany	United Kingdom (1)	France
			Assets		
External	11.62	1.65	7.42	5.05	14.05
Treasury	17.85	7.56	1.04	3.18	1.34
Financial system	0.67	0.08	13.01	0.11	8.45
Other	1.13	0.57	1.43	1.21	3.01
Total	**31.27**	**9.86**	**22.89**	**9.54**	**26.85**
			Liabilities		
Notes in circulation	8.92	7.83	11.17	3.55	8.52
Deposits from credit institutions	14.12	1.24	4.96	0.34	2.68
Treasury	0.08	0.20	0.45	–	3.15
Capital and other liabilities	8.15	0.59	6.31	5.64	12.50
Totale	**31.27**	**9.86**	**22.89**	**9.54**	**26.85**

Sources: Central bank bulletins and IMF, *International Financial Statistics*.
(1) The external assets and liabilities of the monetary authorities are taken from IMF, *International Financial Statistics*.

The operations of the central bank impinge primarily on the terms on which banks provide credit to the economy; the supply meets the demand for loans to finance investment, production, consumption and purely speculative operations. The volume of credit and interest rates determine the aggregate demand for goods and services and thus the level of economic activity, the amount of saving, the quantity of money and that of other financial assets.

All the above-mentioned variables react in turn on the balance of payments, the exchange rate and prices.

The Bank of Italy's econometric model is basically specified along the lines I have just described, even if various generations and versions of the model now exist. The most recent ones incorporate a deeper analysis of the transmission of effects via interest rates.

The econometric structure shows that macroeconomic variables such as domestic demand, the balance of payments, prices and employment can be influenced and to some extent controlled – significantly in the short run, less so in the immediate – through the ordinary instruments of monetary policy.

In several periods during the seventies and the first half of the eighties, at times of serious foreign exchange and inflationary crisis, it was necessary to resort to extraordinary instruments of control that would have an immediate impact. In those years credit flows were largely channeled through the banking system. Administrative constraints were imposed directly on banks' lending and investment in securities. These measures were able to overcome the situations of acute crisis.

In the face of fierce exchange rate speculation or inflationary pressure, whether actual or feared, control through ordinary market operations and interest rates may prove ineffective, even when the latter are pushed up to exceptionally high levels. Such situations damage the credibility of the central bank and involve serious costs for several segments of the financial system and for firms.

Under such conditions, it is necessary to act directly on the credit aggregates in order to limit the transmission of negative effects through interest rates and to influence expectations; indirect action through the markets may require interest rates to be raised appreciably and maintained at high levels for a protracted period of time.

It is sometimes debated whether monetary policy might not be entrusted with achieving precise quantitative objectives, as, for example, perfect price stability.

The control of credit and interest rates enables central banks to exert a strong influence on the level of domestic demand and the external value of the currency and thus, indirectly, on costs and prices. But the price level and the competitiveness of an economy are also strongly affected by other macroeconomic variables, among which fiscal policy and labour costs are paramount.

Precise quantitative objectives may therefore be beyond the reach of the central bank or, at any rate, extremely costly in terms of the other objectives of economic policy that impinge directly on the common good.

6. The objectives of economic policy and the public debt

Monetary policy has to coordinate its measures and interventions within the general framework of government economic policy.

The stability and functionality of the banking system, its effectiveness in serving the needs of the economy, unarguably constitute an important economic policy objective entrusted to the central bank. Stability is pursued, first and foremost, through appropriate management of liquidity. Banking laws grant powers of intervention with regard to the structure of the system and, again for the purposes of stability, the possibility of controls on the activity and operations of credit institutions.

An examination of the operations of the central banks of the main countries shows that all of them have special relationships with the Treasury regarding the placement and management of the public debt. There are functional and historical reasons for these links. Indeed, an important part of monetary control is carried out through purchases and sales of government securities. More basically, in a system where money is a fiduciary instrument the stability of the currency depends crucially on the quality of public financial management.

In the event of a budget deficit and a public debt that are not in equilibrium with the potential of the economy, stability could hypothetically be pursued by setting up a monetary system based only on credit to the private sector, or else by externally imposing an absolutely stable currency. Such arrangements would be built on uncertain foundations and the equilibrium could prove only temporary or indeterminate. A form of Gresham's law would probably operate, with bad money – the public debt – driving out good money, and the financial crisis of the State inevitably spreading to the private sector.

The effectiveness of the transmission of monetary policy impulses also depends on the size of the financial system and that of the public debt. Raising interest rates has a stabilizing effect on the credit instruments issued and demanded by the private sector, but an ambiguous effect on the public debt: it is stabilizing as regards debt-holders, since it has a positive influence on demand, but tends to increase public expenditure further down the road. A large public debt, with a short average maturity and a sizable proportion of floating rate securities, hamstrings action to achieve monetary stabiization.

7. The international dimension

Thus far I have referred to systems in which economic policies are aimed exclusively or prevalently at domestic objectives. The discussion needs to be supplemented with a few observations regarding the international dimension of the problems.

In the present environment of open banking and financial systems, "capital movements" cover phenomena very different from those of a few decades ago. They correspond only in part to transfers of savings from one system to another.

Short-term capital movements mostly consist of loans made by one country's banking systems to residents and operators in other countries. New purchasing power is created, increasing the scope for expenditure in the country of destination without reducing it in the country of origin.

International liquidity tends to expand and be distributed among countries without national authorities being able to exercise stringent controls and, at times, without any connection with economies' underlying evolution.

In periods of exchange rate uncertainty, operators use short-term funds to hedge risks or for purely speculative transactions. During the recent crises of the European Monetary System, the size of such operations was very large compared with similar occasions in the eighties. The interventions needed for stabilization transcend the possibilities inherent in the size of central banks' balance sheets.

8. Conclusions

In the early nineties the economies of the leading countries have seen substantial growth in intermediation and in the complexity of financial markets, high capital mobility and, in essence, flexible exchange rates. In this context, monetary policy – in a broad sense, that is, with reference to total financial assets and liabilities – has reacquired a closer, albeit quantitatively imprecise, link with the price level. Interest rates, though influenced in every country by the level prevailing in the others, appear to be under the control of monetary policy to a significant extent, at least in the short run. The depth and efficiency of money and financial markets enhance the effectiveness of central bank action based on the ordinary instruments of intervention and on the exchange rate. In exceptional periods it may prove necessary to limit the means available for speculation and rein in expectations by acting directly on the quantity of monetary base and credit.

The return to a more active use of monetary policy in the eighties had been prepared by theoretical debates, but was also made necessary and prompted by the preceding rounds of inflation. In every country domestic price and exchange rate objectives are fundamentally linked, however, to macroeconomic and structural policies other than monetary policy – primarily fiscal, public spending and incomes policies.

Different periods and countries offer telling evidence that serious costs and imbalances – in employment, growth, interregional relationships and hence exchange rates – have resulted from the virtually exclusive and often uncoordinated use of monetary policy. The outcome of economic policies has also been affected by excessive confidence in the spontaneous forces of the economy, without the critical analyses that the state and functioning of some markets would warrant.

Trade integration and the openness of monetary systems, accelerated by fixed or at least stable exchange rates but progressing even under flexible rates, have raised serious new problems for the monetary authorities.

The abandonment of the Bretton Woods arrangements has been followed by the de facto formation of a multipolar system dominated by three or four major economic and financial regions. Each region comprises several countries, which, even if linked by exchange rate and cooperation agreements, are in the end formally independent.

Money created by the central bank and the banking system in each of these major regions can act as a reserve currency and as the base for an expansion of credit by the banking systems of other countries or regions, or for banking operations that cross national borders.

An international monetary system is tending to emerge in which the behaviour of national economies resembles that of individual credit institutions in the national arena under free banking regimes. However, it lacks a lender of last resort and a cogent quantitative reference.

The system is incapable of self-regulation and incorporates an inflationary drift. Foreign exchange and cyclical crises periodically check the growth in the nominal quantities of credit and money, but impose costs in terms of output and employment. Against this background, a quantitative anchor could be provided by the central banks of the main countries or groups of them.

Ensuring the stability of the banks and financial markets in each country sometimes requires the central bank to supply liquidity and thus may appear to conflict with the policy of defending the value of money. On closer inspection, however, it can be seen that no contradiction exists. Instability can result in the financial system and the public debt in particular exerting pressure on aggregate demand, prices and the balance of payments. Insofar as monetary policy – through liquidity management in the short term and, above all, through interventions of a structural nature – helps to ensure the proper functioning of intermediaries and markets, all financial assets are "fixed" to some extent within the system and subject to more stable demand on the part of investors.

The robustness of the secondary market for government securities enabled it to provide an important anchorage for financial savings in the recent crisis that struck Italy. Major disposals were made, first by foreign investors and then by residents. The market was able to absorb them, even if prices fell appreciably, in continuous and orderly trading, thus laying the basis for the subsequent recovery.

In the absence of such a market, the recent events affecting the Italian economy would probably have brought trading in government securities to a standstill and created funding difficulties for the government, with serious repercussions on intermediaries and the entire economic system.

Statement by the Governor, Carlo A. Ciampi,

on the Outlook for Monetary Policy to the Budget, Treasury and Planning Committee of the Chamber of Deputies

Rome, 20 January 1993

1. The economic situation in Italy

Italy's economic situation changed in the course of 1992. Since last autumn Italy has no longer been among the economies that are still growing, albeit at a moderate pace, but has joined those that are stagnating or slowing down. Provisional figures show that in the third quarter of last year Italy's GDP was 0.6 per cent lower than in the second. The performance of the other Group of Seven countries was similar or worse, as in Germany for example; the exception is the United States, where GDP grew at an annual rate of 3.4 per cent after a long recession.

All the available information points to an accentuation of the recessionary tendencies in Europe and Japan, while in the United States the outlook is steadily improving. Nonetheless, the exchange rate fluctuations of recent months have made the evaluation of these data more difficult. Their effects on international trade are uncertain, since their size and rapidity may have led operators to react differently compared with the past, particularly in setting prices.

For the Italian economy, which sells two thirds of its exports in Europe, the short-term indicators are pointing downwards. On the basis of actual data up to October and estimates for November and December based on electricity consumption, average industrial production in the fourth quarter was 3 per cent lower than in the corresponding period of 1991 and 1.5 per cent lower than in the third quarter of 1992. The weak phase of the industrial cycle that began in 1990 has thus continued and become a downturn. The sectors most affected by the fall in output are the capital goods and consumer durables sectors, where in many cases the decline in demand has been aggravated by shortcomings in product quality. Since the summer the downturn in production has spread to the whole of the consumer goods sector.

Job losses are accelerating, particularly in large firms. The latest statistics show that in the first ten months of 1992 employment in manufacturing firms with more than 500 employees was 5.3 per cent lower than in the same period of 1991, after adjusting for the number of hours worked per employee; recourse to the Wage Supplementation Fund was more than 8 per cent higher in terms of hours paid.

While the difficulties are particularly acute in industry, which is more exposed to cyclical fluctuations, output and employment are cause for concern throughout the economy. The cutback in planned corporate investment could be accompanied by a fall in the propensity to consume; a worrying symptom of this can be seen in the contraction in sales of durable goods in the last quarter of 1992. Moreover, the public works sector, which is normally a useful stabilizer during recessions, is providing only limited support.

The currency and financial crisis of last September has accentuated the uncertainty and volatility of expectations among producers, consumers and savers alike. On the one hand, there is a risk of a further weakening of domestic demand, while on the other the devaluation of the lira provides opportunities: substantial gains in price competitiveness will enable Italian producers to increase their shares of domestic and foreign markets and thus to expand production despite the depressed state of domestic demand.

Reliable data on the competitiveness of Italian manufacturing industry vis-à-vis our principal competitors, based on producer prices, are available up to October 1992. At that time the competitive position of Italian industry was 12.4 per cent better than in August, almost entirely reflecting the lira's nominal effective devaluation. Compared with 1987, the year of the last realignment of EMS central parities before last September's crisis, the gain in competitiveness was 6.9 per cent. At last week's average exchange rates and assuming that variations in producer prices reflect unchanged price-setting behaviour by firms in both Italy and competing countries, the gain in competitiveness would rise to 17.4 per cent in relation to August 1992 and to 12.2 per cent when compared with January 1987.

Aided by this gain in competitiveness, it is now up to our firms to find new ways to penetrate the international market; this would bring immediate advantages, and maximum benefits would accrue when the international recovery began. It would consolidate the improvement in trade that appeared in 1992 and was presumably responsible for the surplus in the annual trade balance on an *fob* basis, a result that would otherwise be merely a temporary benefit of the cyclical downturn. But it cannot be taken for granted that this opportunity will be successfully exploited: Italian firms may have to overcome not only the resistance of foreign competitors willing to accept substantial reductions in profits rather than cede market shares at such a delicate juncture, but also a competitive handicap in terms of product quality and differentiation, which cannot be offset by pricing policies.

The outcome is of fundamental importance for the whole nation. For Italian firms to succeed, two conditions must be met: there will have to be continued wage moderation and firms must refrain from any hasty, but short-lived recovery of profit margins.

The same conditions will also have to be met if the lira's devaluation is not to result in an increase in inflation; compliance must spread from industry to all the other sectors of the economy, including those not exposed to international competition. Until last month consumer price inflation, measured by the twelve-month rise in the cost-of-living index, was still on a downward course, having fallen to 4.8 per cent. The initial price impact of the devaluation has been limited by the curbing of labour costs and the weakness of domestic demand, but it would be an illusion to imagine that a devaluation of the magnitude suffered by the lira will not put upward pressure on domestic prices, leaving aside the delay with which increases in input costs may be reflected in final prices. The pressure has been eased by the fall in the dollar prices of oil and raw materials, imports of which equal 4 per cent of GDP; since September oil prices have fallen by 13 per cent and the prices of raw materials by between 2 and 7 per cent, depending on the source of the data.

The abolition of the *scala mobile* has removed a dangerous mechanism that made inflation self-sustaining, even when it was due to external shocks. The containment of price increases generated by the lira's depreciation and, more especially, their swift absorption, now depend on consistent behaviour. The outcome of the fight against inflation is once more in the hands of employers and trade unions; it will depend on their ability to build on last July's agreement on labour costs by engaging in constructive negotiations aimed at a general revision of labour contracts so as to reconcile the protection of real wages with the need to avoid cutbacks in employment and to slow the rise in prices.

2. The exchange rate of the lira and interest rates

The lira has remained weak since the end of November, dropping to a low of 938 lire against the Deutschemark on 5 January. Since August, its effective exchange rate against the leading currencies has fallen by 17 per cent.

The decline in short-term money market rates that began at the end of September has continued in recent months in response to the lowering of official rates on four occasions, which brought them back to their June level on 22 December. In the past twenty days money market rates have fluctuated at around 13 per cent. Though narrowing from 9 points in September to 4.5 points now, the differential between Italian and German three-month interbank rates is still wider than the 2.8 points recorded before last June.

Net tender rates at the latest Treasury bill auction in mid-January were 11.1 per cent, compared with 11.4 per cent in May 1992. Medium-term yields – on Treasury bonds with a residual maturity of more than twelve months – have remained at around 12 per cent after tax, one point higher than in May; only the results of yesterday's issues, where the quantity of securities offered was relatively modest, point to a more pronounced downward movement. The differential vis-à-vis German medium-term rates is between 4 and 5 points, markedly wider than in May of last year.

The crucial recovery in the Italian Republic's creditworthiness on foreign markets is proceeding slowly. The yield differential between ecu bonds issued by the Italian Republic and similar paper of other sovereign issuers, which had been less than 10 basis points until last May, is now around 75 basis points despite having come down from the peaks recorded during the summer. A positive sign is the international market's favourable reception of the Republic's DM 5 billion five-year bond issue, which was placed at 7.25 per cent, 47 basis points above the yield on a comparable bond issued by the German Government.

Liquidity management by the Bank of Italy, which is effected principally through repurchase agreements, has involved frequent auctions at which average rates have generally been lower than money market rates. The central bank's downward pressure on interest rates has been promptly but not fully transmitted to short-term market rates and even less so to the rates on longer-term securities. I shall return to this matter shortly. The slope of the yield curve for government securities is opposite to that in the main European countries, where long-term rates are lower than short-term ones.

The spread between bank lending and deposit rates, which widened between June and September, has returned to the values recorded in May 1992 as far as prime customers are concerned (between 2 and 3 points), but the average spread for all customers is still around 2 points larger than in May.

The transmission of changes in official rates to bank lending and deposit rates depends on the structure of the interbank market and competition among the banks. The reform of the payment system, the creation of a screen-based market for interbank deposits and the mobilization of compulsory reserves have enhanced the functionality of the interbank market. Today, interbank rates reflect changes in official rates more promptly than they did four or five years ago.

Competition in banking markets has also increased in recent years, though further progress needs to be made. We must not forget that for more than half a century the Italian credit system was subject to price regulation, with rigid limitations and constraints. In the current situation banks have adjusted more quickly to increases in official rates than in the past, while the speed at which they have responded to decreases has been similar to that observed on previous occasions.

Two other specific aspects should be borne in mind in evaluating the recent behaviour of bank lending rates in Italy: first, increased credit risk, and secondly, the losses banks incurred owing to the fall in government securities between July and October, although these have been largely offset by the subsequent recovery in prices.

In a situation such as the present, in which the market remains uncertain how to assess the effectiveness of the economic policy mix and the direction in which the economy is heading, long-term interest rates will tend to respond much less than short-term rates to the promptings of monetary policy, as Keynes explained in the *General Theory*: long-term rates are particularly sensitive to expectations.

With a lira that has depreciated by almost one fifth and is now technically undervalued, the combination of a weak exchange rate and interest rates that are downwardly sticky despite the central bank's willingness to accept and encourage a rate reduction reveals the persistence of the unfavourable expectations for the Italian economy that both determined and reflected last summer's currency crisis. Savers and financial intermediaries still perceive the inflation, fiscal and credit risks as significant. The policy of economic adjustment that the Government and Parliament have formulated and are implementing has still not produced much improvement in the overall pattern of expectations. The restoration of confidence and credibility, and not only with regard to economic policy, is the Italian economy's foremost problem today.

In this situation, an attempt by the Bank of Italy to *force* interest rates down is not only likely to fail but could prove counterproductive; excessive downward pressure on short-term rates would be regarded as a sign of laxity, would accentuate fears of inflation and would have the opposite effect on long-term rates.

It should be recalled, moreover, that although long-term interest rates are lower than short-term ones in the main industrial countries, they are still high in real terms. Real long-term rates range from between 3.5 and 4 per cent in the United States, Germany and Japan to between 5 and 6 per cent in France and the United Kingdom. International financial integration does not permit an economy like ours to operate with lower real rates than those prevailing abroad. The reduction and then containment of inflation in Italy since the beginning of the eighties are largely attributable to the stability of the lira and the maintenance of real interest rates comparable with those abroad, averaging around 5 per cent at the long end of the maturity range.

Without the anchor of the lira in the narrow EMS band, the country runs the risk of a resurgence of inflation, despite the fall in domestic demand. Management of the money supply and credit must now play a more prominent role in maintaining anti-inflationary expectations than in the past. According to preliminary estimates, the money supply grew by 5.9 per cent in 1992, thus keeping within the target range of 5 to 7 per cent announced at the end of 1991. For 1993 the Bank of Italy has confirmed the objective of between 5 and 7 per cent for M2 growth. Bank lending also shows signs of slowing down. At the end of the year the growth in lira lending was around two percentage points below the 7.6 per cent level indicated in the monitoring exercise the Bank initiated in October.

For a given rate of growth in nominal GDP, the quantity of money demanded at current and expected interest rates is not invariable. If market expectations improve and confidence is restored, it could decline, thereby creating scope for purchases of other financial assets, and particularly public and private securities.

The limits set for money supply growth in 1993 are compatible with a decrease in interest rates during the year. The smaller the inflation component of the growth in nominal GDP due to the depreciation of the lira and the more rapid the return to a normal state of confidence in the future of the economy, the more pronounced the decline in interest rates will be. With regard to the demand for financial assets, the most delicate aspect remains that of placing new issues of government securities to finance the borrowing requirement and maturing debt. The granting of the loan to Italy by the European Community and the Government's renewed commitment to budget adjustment as a condition of the loan will help to restore the market's propensity to subscribe a satisfactory volume of government securities, and at less cost.

Overcoming the tensions that persist and improving expectations will help not only to reduce interest rates but also to stabilize the lira at a more realistic level in the foreign exchange market with a view to its re-entry into the Exchange Rate Mechanism.

At the same time, steps must be taken at the Community level to eliminate the factors that helped to create exchange rate tensions in most of the ERM member countries last autumn, impeded a prompt and appropriate defence of the European Monetary System and undermined its credibility. The collegial spirit among participants in the System needs to be strengthened, both in setting and periodically revising the parity grid and in defending individual parities. Setting and defending parities must become a shared responsibility, a joint action. The close links between exchange rate policy and monetary policy must also be borne in mind; monetary policy, though a national responsibility in the current phase of European integration, must take account of the need for increasing European coordination.

3. The borrowing requirement and interest payments

Economic policy is faced with difficult choices. The looming recession must be prevented from growing deeper and longer. On the inflation front, even when the effects of the devaluation have been overcome, we will still have to achieve convergence with the lower rates obtaining in the other main

European countries. There is a pressing need to build confidence in the financial markets by averting sudden falls in interest rates and especially by implementing a budget policy that is credible on account of its adjustment objectives, rendered convincing by the "structural" nature of the corrective measures and confirmed day after day by their rigorous application.

The public finances continue to be the crucial problem that needs to be resolved.

On the basis of preliminary data, the state sector borrowing requirement amounted to around 163 trillion lire in 1992. The overshoot with respect to the ceiling of 155 trillion fixed in September in the Government's Forecasting and Planning Report was almost entirely due to non-receipt of the expected proceeds from the sale of state assets. The slowdown in productive activity in the second half of the year contributed to the growth in the deficit, albeit to a modest extent. Nevertheless, the primary deficit, which had been reduced from 14.5 trillion lire in 1990 to 7 trillion lire in 1991, turned into a primary surplus of 9 trillion in 1992.

The 1993 budget approved by Parliament provides for an adjustment equal to nearly 6 percentage points of GDP, which makes it much larger than those implemented in preceding years. The budget adjustment is also more effective by reason of its composition; it is less dependent on one-off measures, for the first time it includes measures aimed at affecting the volume and nature of expenditure over the long run, and it provides for a larger correction on the expenditure side.

Based on estimates that the Government originally made in September and which it reiterated and accepted as a condition for disbursement of the Community loan granted to Italy last Monday, the set of measures should make it possible to limit the state sector borrowing requirement to 150 trillion lire; the primary budget surplus is forecast to increase to 50 trillion lire and interest payments to amount to 200 trillion.

Even more than in the past, achieving the objectives calls for careful evaluation of possible risks and prompt corrective measures should these prove necessary. The terms of the Community loan provide, however, that any correction shall take account of the effects on the borrowing requirement of a worse macroeconomic environment than that originally forecast. Among the possible risks, the following should be mentioned:

a) the economic slowdown could be more pronounced than foreseen, causing tax revenue to contract and certain items of expenditure to increase;

b) the spending cuts could reduce tax receipts by more than expected;

c) certain spending cuts, such as those in transfers to local authorities, could be hindered by the conduct of the administrations involved.

I shall now examine expenditure on interest in more detail. As I have already said, interest payments are forecast to amount to 200 trillion lire in 1993, compared with 172 trillion in 1992. In 1993 the state sector debt is expected to grow by just under 10 per cent, from 1,635 trillion lire at the end of 1992.

Calculating the interest payments on the debt in the form of existing fixed rate securities due to mature after December 1993 is straightforward; the estimate of the remaining interest payments, which make up by far the larger part, has to be based on assumptions about the likely trend of interest rates on the securities to be issued during the year.

When the forecast was made in September, it was assumed that issue yields would gradually decline. To date, interest rates have fallen by more than had then been predicted; as I mentioned earlier, the last issues in January indicate that last autumn's surge in interest rates has been fully reversed for short-term securities and largely though not yet completely offset for longer-term paper.

The overall forecast for interest payments in 1993 assumes a further reduction in interest rates during the year, although it is obviously uncertain whether this will actually happen. Thus, while the basis for forecasting 1993 interest payments has improved slightly, there is still a wide margin of uncertainty regarding the final amount. The outcome depends in no small measure on conditions in the international financial markets, and particularly those in Europe; it depends above all on our conduct, on our capacity to merit confidence and credibility.

The financial market, the banks and the economic situation

Speech by the Director General, Lamberto Dini, to the extraordinary meeting and conference of the Association of Bank Securities Traders

Milan, 25 February 1993

I wish to thank the President for inviting me to participate in this meeting of the Association of Bank Securities Traders. It was an invitation I accepted with pleasure; there are not many opportunities for direct dialogue with practitioners from the Italian financial market, the government securities component of which is now one of the largest in the world.

In this segment of the Italian financial market the banking system has traditionally acted as a substitute for institutional investors. In recent years the growing presence of private investors has prompted banks greatly to expand their role in executing orders from the public and in managing private portfolios. Since 1992 banks have been joined in this activity by securities firms, which by virtue of their organizational structure and institutional form are more oriented towards serving professional operators and assuming a central role in the market in private sector securities.

The Italian financial system as a whole is sound and robust, although weaknesses persist in individual areas, particularly with regard to the instruments for financing the private sector; too much emphasis is sometimes placed on these aspects.

Today's meeting comes at a time when conditions in the markets in public securities are easier than they were in the summer and autumn; prices have recouped the large losses they suffered in the second half of 1992. This allows us to turn our minds to the structural and functional aspects of the financial system and of the markets that most warrant the attention of operators and investors.

1. The structure of the Italian financial system

The statistics on sectoral financial flows, which have recently been compiled using the new financial accounts produced by the Bank of Italy, confirm that in Italy there is a more marked separation than in other countries between the sectors of the financial system that accumulate financial savings and those in deficit. In 1990, the latest year for which comparable data are available, the deficits of general government and non-financial firms in Italy were equal to respectively 10.2 and 8.3 per cent of GDP. The corresponding ratios were 1.9 and 2.3 per cent in France, 3.0 and 0.8 per cent in Germany, and 4.7 and 0.7 per cent in the United Kingdom. In the same year households' financial saving amounted to 14.6 per cent of GDP in Italy, compared with 7.4 per cent in Germany and less than 2 per cent in both France and the United Kingdom; our high propensity to save has made it possible to keep the current account deficit of the balance of payments within reasonable limits.

No less signficant is the divergence between Italy and the other countries with regard to the gross assets and liabilities of the principal sectors of the economy. In Italy the financial liabilities of general government are far above the average: we issue as much government debt in a single month as other countries of comparable size and income issue in a year. The position of Italian households is also distinctive: at the end of 1990 their debt was equal to 19 per cent of GDP, somewhat more than the 11 per cent recorded in Germany but far lower than the figure of 55 per cent for France and that of 80 per cent for the United Kingdom. The situation of firms differs too; despite their relatively large net indebtedness, their financial liabilities net of shares were equal to less than 60 per cent of GDP, the lowest level among the main countries of the Community.

Although highly simplified, these figures clearly indicate the profile of the Italian financial system. Households have a high saving rate, and accordingly their overall indebtedness is modest in absolute terms and smaller than in other industrial countries. Despite the heavy burden of public debt, the combined liabilities of households, firms and the public sector were equal to 174 per cent of GDP in 1990, placing Italy mid-way between the much lower ratio in Germany, where self-financing is traditionally more prevalent, and those in France and the United Kingdom, which approached 200 per cent. Italian intermediaries thus ensure an orderly flow of savings between sectors in surplus and those in deficit, and particularly between the private and public sectors. By contrast, the circulation of financial savings within the private sector is less intense than elsewhere; on the one hand this reduces economic operators' freedom of action, but on the other it eases the constraints deriving from excessive borrowing by households and firms.

In recent years the priorities for the development of the market have been dictated by the need to meet the borrowing requirements of the public and private sectors. The system for trading in government securities has been strengthened by the creation of the screen-based market. Trading has been simplified and made more transparent and secure through a set of measures regarding the issue, circulation, custody and redemption of securities. On occasion this effort has been held partly responsible for the expansion of the public debt, but it is manifestly wrong to confuse the effect – the growth of the market – with the cause, which lies in the large budget deficits.

The money market, which is the essential complement to the financial market, has gained greater liquidity and depth as a result of the innovations that have been made in the markets in monetary base and interbank deposits. The range of possibilities open to operators was recently completed with the opening of the Italian futures market, which now bears comparison with the London market in lira futures as regards size and efficiency and gives medium-term stability to the entire money market. The growth in the number of contracts listed and the imminent creation of an options market will permit Italy to make further headway in areas occupied by foreign exchanges of longer standing.

By contrast, the markets in "typical" private sector instruments – shares and particularly bonds – are less developed. Numerous studies of the share market have led to the formulation of a diversified set of measures that will enlarge the flow of risk capital. The private bond market will take longer to develop, since its relative importance has declined. The organization of a market of professional dealers may give rise to difficulties; your Association could undoubtedly offer useful suggestions in this regard. Given the need to diversify portfolios, the potential demand for private securities is not inconsiderable; however, the illiquidity of the secondary market has adverse repercussions on the primary market.

The completion of exchange liberalization has gone hand in hand with these structural changes and has often stimulated them, even if the efforts to standardize the taxation of financial assets have not yet borne fruit. Italian residents have made wide use of the possibilities open to them: net of official reserves, the total foreign assets held by Italian residents, including intermediaries, amounted to more than 400 trillion lire at mid-1992, compared with 285 trillion two years earlier. The existence of a more liquid market unencumbered by administrative constraints has heightened the interest of foreign investors, whose assets in Italy rose from 480 to more than 620 trillion lire over the same period. Foreign investors often subscribe more than 15 per cent of an issue of government securities; their behaviour influences the performance of the domestic market and at times anticipates changes of trend.

2. The role of the banks

The banks have played an essential role in promoting these developments: the composition of their balance sheets, their operating techniques and the growth in their foreign business testify to the effort they have made to adapt to the evolving situation.

The banking system has facilitated the financing of the public sector borrowing requirement by means of direct flows of private savings. The share of domestic financial assets intermediated directly by the banks fell from around two thirds in 1980-81 to just over one third in 1990-91; however, it remains solidly above 90 per cent when indirectly managed savings are included. The banks are still the linchpin of the Italian financial system.

In the second half of the eighties the share of firms' financial liabilities in the form of bank loans began to grow again. Despite this, as I have mentioned, the leverage of Italian firms remains moderate by international comparison and the banks appear to be able to satisfy corporate financial needs even during the recession: credit crunches of the type that have occurred in other industrial countries have not been part of the Italian scene.

The reduction in banks' securities portfolios and the growth in their lending to the private sector were a source of profit for the banking system in the eighties, thanks partly to the prolonged period of economic growth. Good profitability permitted sizable capital increases to be made out of retained profits and via recourse to the market. Italian banks are highly capitalized by international standards, a factor that enhances both their capacity to finance the economy and their overall stability.

Major legislative changes may encourage the banks to expand even further into fields adjacent to traditional intermediation. The application of regulations agreed at Community level, particularly those on minimum capital adequacy and large exposures, could lead to loan securitization in Italy as well. Moreover, Italian banks will have greater scope to provide firms with financial support by arranging public placings of their debt instruments; they will be able to facilitate the financial restructuring of firms by participating directly in their capital, within qualitative and quantitative limits to be determined, with the aim of encouraging the listing of firms on the stock market. The privatizations initiated by the Government will offer intermediaries further opportunities for business and for widening their professional expertise.

Italian firms feel the need for greater direct access to the markets, particularly in the current economic situation. The inefficiency of the domestic channels of financing could induce them to turn abroad, a risk that can be averted only through the joint endeavours of all the categories of intermediary, both banks and securities firms. An effort must be made to improve the efficiency of the markets in direct corporate finance. These needs have to be addressed in the appropriate professional bodies, since only system-wide solutions will work.

There is an evident link between the provision of a wider range of financial services and the primary function of the banking system, which is to act as an efficient and effective instrument of credit allocation. Organizational and professional innovations can enable the banks to profit from the wealth of information they hold on their customers. Sensitivity in understanding the financial needs of counterparties, an ability to offer them a broad range of options and agility in providing appropriate solutions will be fundamental aspects of the competition Italian intermediaries will wage against foreign banks, which are already geared to serving customers in more sophisticated financial markets.

The development of loan securitization and derivative products and the deregulation, enlargement and integration of the capital and foreign exchange markets offer banks and their treasurers new and wider business opportunities. For these to be exploited without undue risk, however, they must be subject to regulatory and organizational safeguards no less strict than those traditionally applied to contend with the risk of counterparty insolvency.

Interest rate and exchange risks receive particularly close attention from the supervisory authorities; harmonized instruments for their measurement and regulation are being studied at international level. Operators will be consulted on the related proposals in the course of this year. But even more than supervisory rules, there is a need for investment on the part of the banks to ensure that they correctly identify and assess these risks and that their organizational and decision-making structure is appropriate for responsible risk management. The principle to be applied is that the possible combinations of risk and return must be clearly identified and deliberately selected; accordingly, risk management must be carried out by staff with specific expertise.

3. The credit intermediaries in the current cyclical phase

For most of 1992 Italian banks recorded net inflows of capital from abroad, which exceeded 25 trillion lire for the year as a whole. Until August abundant inflows of bank capital were fueled by resident customers' demand for foreign currency loans in view of the lower cost of borrowing in foreign currency than in lire if the exchange risk was not covered and the widespread expectations of a stable lira, which made many borrowers regard hedging as superfluous.

This circuit was broken in September, when confidence in the lira weakened. The demand for foreign currency loans on the part of residents gave way to massive demand for lira loans on the part of non-residents; the latter, expecting a devaluation of the lira in the near future, used the borrowed funds to take a position against the lira. Italian banks satisfied the demand mainly by means of currency swaps, which were made attractive by the high yields then available on lira loans in the Euromarket. The outflows of bank capital gradually diminished in October and November and gave way to renewed inflows in December, stimulated partly by the possibility of using foreign currency swaps to obtain lira financing from the Bank of Italy.

The promptness with which the banks reacted to the sizable increases in official rates last summer contrasts with their much slower response to subsequent cuts in the discount rate. Average bank lending rates are still more than a percentage point higher than they were last May, while the discount rate came back down to its May level two months ago and is now half a point lower.

The deterioration in loan quality, which reflects the cyclical downturn, is a factor in the slow reduction in lending rates, whose downward stickiness is partly attributable to the worsening of customers' creditworthiness and the increase in non-performing loans. Between June and December the share of loans disbursed by banks at rates not exceeding the prime rate more than halved, falling from 38 to 16 per cent. In addition, the overall cost of fund-raising has increased, as depositors have progressively shifted their funds from current accounts and savings deposits into certificates of deposits. The heightened perception of risk and the increased cost of fund-raising do not, however, provide sufficient justification for the current level of average lending rates. Their stickiness is a cause for concern in the present economic climate.

The fall in output, which until the summer was confined to capital and durable consumer goods has spread to the entire consumer goods sector. The business opinion surveys do not indicate expectations of recovery: the pronounced decline in domestic orders is only partly offset by weak signs of a pick-up in foreign demand. The other European countries also remain in the grip of recession; it may be some time before they have a chance to reap the benefits of the recovery taking place in the United States. Be that as it may, our firms' improved competitiveness in export markets will be a decisive factor in the recovery of the Italian economy if domestic inflation is held in check.

Against this background, when setting lending rates banks must also fully exploit the scope created by the recent revision of the reserve requirements. This measure reduces their competitive disadvantage vis-à-vis their European counterparts, with which they are in open competition; it provides for the gradual equalization of the treatment of liabilities issued by banks with that of liabilities issued by credit institutions engaging mainly in medium and long-term lending, in accordance with the provisions implementing the Second Banking Directive. The reform of the reserve requirement has freed around 27 trillion lire so far and will release another 7 trillion within the next few weeks. The modest rate of growth of the money supply and the banks' appreciable indebtedness to the Bank of Italy currently permit the expansionary effects on liquidity to be easily reabsorbed.

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In conclusion, analysis of the structural condition of the Italian financial sector sheds light not only on its well-known weaknesses, but also on strengths that can prove advantageous in the current phase of the business cycle. In several of the world's leading economies, particularly the United States, Japan and, most recently, the United Kingdom, the capital weakness of the credit sector, together with the heavy burden of household and corporate debt, has made the transmission of monetary policy impulses much less effective than in the past. The reluctance of intermediaries to transmit expansionary monetary policy impulses to lending and of borrowers to take on further debt in order to increase their spending capacity have appreciably undermined the countercyclical action of monetary policy.

Borrowers in Italy, especially households, increased their recourse to credit during the eighties, but maintained a lower level of indebtedness than that found in other industrial countries. The banking system, for its part, not only considerably strengthened its capital base, but also, at its own initiative and because of regulatory constraints, exercised great prudence in expanding its lending to sectors such as real estate, which in Italy as elsewhere long held out illusory promises of unlimited gains. The banking system thus faces the difficult challenge of the recession from a position of strength, not weakness. In addition, it can contribute to managing corporate crises with a greater degree of freedom than in the past, thanks to the provisions of the law implementing the Second Banking Directive.

By contrast, the principal problem of the Italian economy remains the size of the public debt. The problems of managing the debt help to explain the Bank of Italy's decision to proceed gradually in reducing official rates after suspending intervention in support of the lira. A sudden easing of monetary conditions could have jeopardized the restoration of confidence and the achievement of a lasting reduction in long-term interest rates in a context in which the public debt will continue to expand faster than output for some time to come, despite the fiscal measures that have been adopted. The target range of between 5 and 7 per cent for money supply growth in 1992 has been maintained for the current year. In October, in order to signal its determination not to allow a revival of inflationary pressures, the Bank of Italy preceded its announcement of a reduction in the discount rate by calling on the credit institutions to keep the increase in lira lending within defined limits over a six-month period.

Medium and long-term lending by the special credit institutions was exempted from monitoring at the end of January, when it became clear that the risk of unstable market expectations had diminished. Monitoring the trend in lending demonstrated its usefulness at the height of the crisis; an improvement in the financial situation is the prerequisite for not renewing the procedure beyond its original expiry date.

The monetary authorities firmly intend to take the lira back into the Exchange Rate Mechanism as soon as domestic and international conditions permit. It is still too soon to make an adequate assessment of the instability that afflicted so many Community currencies. It is to be hoped that, in a renewed effort of Community cohesion, the lessons learnt from these experiences will lead to restoration of the conditions needed for the European Monetary System to emerge strengthened.

At present the exchange rate of the lira over-reacts to tensions stemming from the domestic political situation and does not sufficiently reflect the strong gains in competitiveness that the devaluation has produced. In the immediate future, therefore, the anchor for Italian monetary stability is to be sought and found within Italy itself. The Bank of Italy is tracking the monetary and credit aggregates even more closely than in the past to ensure that they are consistent with the trend of the economy. The Bank's management of domestic liquidity will continue to be directed towards maintaining orderly conditions both in the interbank market and on the foreign exchanges. In this situation it is up to operators, and particularly those who act as market makers for the lira, to help to keep the market liquid by restoring a normal volume of operations and normal spreads.

The recent signs of an abatement of international monetary tensions give grounds for confidence in the prospects for greater stability. The lowering of official rates in a number of European countries, including Germany, seems to indicate the formation of a consensus in favour of easier monetary conditions. The deepening of the recession in these countries suggests that there is scope for conducting more expansionary monetary policies without rekindling inflation. If these signs are confirmed, new opportunities for stable recovery could open up and rapidly ease the memory of the tumultuous currency developments of 1992.

The difficult path now facing Italian economic policy

Below is the second part of the address delivered by the Governor, Carlo A. Ciampi, on 25 February 1993 on the occasion of the conferment of an honorary degree in Statistics and Economics by the Faculty of Statistical, Demographic and Actuarial Science of the University of Rome "La Sapienza". The complete text will be published in Banca Nazionale del Lavoro Quarterly Review, *no. 185, June 1993*

Analysis of statistically established facts is the precondition for economic policy decisions; it is a prerequisite for correct decision-making. But in economics perhaps even more than in other branches of practical activity, decisions rarely follow unequivocally and mechanically from analysis, which sheds light on the framework for action and narrows the range of possible solutions but never eliminates the choice between alternative courses of action or the decision as to the timetable for implementation. What remains indispensable is the will to act, which alone can lead from knowledge to action, the act of will on which the exercise of responsibility is founded.

The problem implicit both in the diversity, indeed often contradiction, of the economic ends to be pursued and in the comparison inherent in every economic option between subordinate considerations (the cost) and primary interests (the benefit) is complicated by an additional element that broadens the scope for discretion in economic policy decisions. This element is particularly significant in the monetary and financial field in economies with highly developed and internationally open money, foreign exchange and financial markets; it consists of expectations, which take on central importance, and not only in the short run. Crucial variables such as investment, consumption, the supply and demand for currencies, credit, money and securities, and exchange and interest rates are strongly influenced by economic agents' expectations – not only by what they consider to be the most likely forecast, but also by the probability of error they assign to it, that is, by what Keynes called their *confidence* in it.

In short, the indispensable knowledge of the economy's structure and cyclical situation sets the framework but does not eliminate the scope for discretionary measures. The relationship between necessity and freedom of action in economic policy is not deterministic. "It is up to us"; for better or worse, our economic destiny is in our own hands.

Events in the Italian economy in recent years confirm this. With the entry of the lira into the narrow EMS band, Italian economic policy had set a clear course: management of the lira within the narrow band; a monetary policy consistent with the exchange rate; the restoration of sound public finances; rigorously counter-inflationary incomes and fiscal policies; and structural measures to boost productivity and thus help improve the competitiveness of the economy, which was called upon as a whole to converge in accordance with the guidelines and objectives agreed in the Maastricht Treaty.

The success of that economic policy essentially depended on two basic conditions:

- rapid and incisive action to adjust the Italian economy, and
- continued progress of the twelve countries of the Community towards economic and monetary union.

The adjustment of our economy proceeded slowly, particularly as regards the public finances.

More recently, at the beginning of last June, confidence in the steady progress of European integration was shaken by the negative outcome of the Danish referendum on the Maastricht Treaty; doubt was cast on the very survival of the EMS as a bridge to monetary union. A period of pronounced tension in the European foreign exchange and financial markets commenced. Domestic and international economic factors interacted with the political difficulties that beset Italy, causing expectations regarding the stability of the lira and the trends of interest rates to turn pessimistic.

At the Community level, the damage inflicted by the Danish referendum was compounded during the summer by the mounting uncertainty surrounding the referendum to be held in France on 20 September. The reaction of Community governments was dominated by concern lest French rejection of the treaty deal a mortal blow to the Maastricht project. Hence the twelve governments' agreed statements of 28 August and 4 September ruling out any currency realignment within the EMS. The rigidity shown on the exchange rate front was not offset by any flexibility with regard to interest rates. The international markets interpreted this dual rigidity as a sign not of determination, but of a lack of coordination, and the tensions grew more acute.

In Italy, the new Government formed after the elections of 5 April took office on 4 July and drew up an economic adjustment programme whose explicit linchpin was the stability of the lira. The Bank of Italy, in line with the domestic and Community decisions that it had helped to shape, committed itself to a defence of the lira that turned on the time factor – the time necessary for the economic policy to succeed in bringing expectations under control and turning them positive. The defence was based on the three instruments of market intervention available to a central bank: increases in interest rates and a tightening of liquidity, movements within the exchange rate fluctuation band, and resolute use of foreign currency reserves. These are accumulated on purpose, not to be "burnt up" but to support the currency when a crisis threatens. They are subsequently rebuilt: at a profit if the crisis is averted, as happened several times in the eighties; at a loss, which nonetheless does not cancel the earlier profit, once the crisis is over, as in recent months.

The Government's action won recognition for the approach and the methods adopted, and produced some significant results, notably the agreement on the cost of labour. However, in the delicate sequence of budgetary policy announcements and measures, its progress appeared to be held up by discord and obstacles. At several crucial moments it was unable to act within the necessary time frame.

The events that culminated in the mid-September weekend are well known; the technical aspects connected with the devaluation of the lira are treated in depth in the February issue of the Economic Bulletin. The failure of many European governments to grasp that the currency crisis concerned the EMS as a whole and its very foundations meant that advantage was not taken of the opportunity offered by the Italian and German proposal to carry out a general realignment of central rates and change the stance of monetary policies in view of the seriousness of the crisis. Even after the favourable result of the French referendum, the EMS was beset by repeated strains that threatened its survival. The real economy, already clearly in recession throughout Europe, suffered the repercussions of a futile and harmful continuation of high interest rates.

The importance of expectations is confirmed by current developments: a depreciation of the lira far in excess of that required to restore competitiveness, however calculated, and the slowness of the decline in market interest rates despite encouragement from the monetary authorities within the limits imposed by the constraint of orderly management of Italy's massive public debt. The downward impulses imparted to money market, official and intervention rates are not being fully transmitted to long-term rates owing to the persistence of expectations influenced by political and economic uncertainty.

Adverse expectations can be overturned by the unswerving, tenacious pursuit of an economic policy that is clear and consistent in the ways it links instruments with objectives.

The fundamental precondition for this to be achieved is to continue to reject the pernicious idea that our main problem – the budget deficit and the public debt – could be resolved through cathartic action, with extraordinary financial measures that would compromise the country's image for generations, and to convince the market of this. Increasing the primary surplus, principally through structural measures to contain expenditure, consolidate revenue and distribute the tax burden more equally, and obtaining a reduction in the burden of interest payments from a more confident market still constitute the only course that can be followed without shocks and risks of financial crises like the one we avoided, not without difficulty, in late September and early October. The other key is to make the rate of growth in public and private sector nominal wages, tied to a comprehensive incomes policy directed towards and reinforced by disinflation, an integral part of the adjustment of the economy.

Since last October the depreciation of the lira has offered Italian producers the opportunity to regain shares in world markets despite their being affected by a recession that is primarily cyclical and hence temporary. It will be of considerable help to firms in resolving the underlying problems that afflict Italian industry and jeopardize the long-term outlook for employment.

In this context, success in meeting the targets for the expansion of the money supply and credit will anchor expectations to monetary stability. This does not clash with the prospect of lower long-term interest rates, some signs of which are perceptible internationally; on the contrary, it enhances such a prospect. The lira's re-entry into the ERM – at exchange rates which the progress already being made in improving the balance of payments and the economy will help set at realistic levels that are acceptable to Italy and to our trading partners – appears an obligatory step, and one that is not necessarily far in the future, along a route that we must follow and that is the object of unanimous consensus: namely, participation in European Economic and Monetary Union. Our current experience with the forced floating of the lira reveals the disadvantages and dangers of the lack of a reference point for the exchange rate. It is in the national interest to bring this experience to an end as rapidly as possible.

Despite grave domestic and international economic difficulties and the general situation in which even the desire for renewal heightens the immediate uncertainty, economic policy has achieved significant progress of late. This can be summarized in the reduction of inflation, which has been the fruit of wage moderation and the monetary anchor as well as the weakness of demand. It remains crucially important to encourage behaviour that will minimize the inflationary impact of the higher lira prices of imports in the months to come. Only in this way can output and employment derive the greatest possible benefit from the depreciation of the lira once the expected international economic recovery begins.

In the last few weeks interest rates and the yields on medium-term government securities have come down to levels at or below those prevailing on the eve of the foreign exchange and financial crisis. The tendency needs to be consolidated, extended in full to bank rates, and continued. A prerequisite for this is the recovery of confidence and credibility; otherwise, our efforts risk unraveling like Penelope's.

Important steps towards economic and financial adjustment have been made, but two or three difficult years still lie ahead. We must persevere tenaciously in our commitment, with every ounce of will power at our disposal. To be truly effective, this will power has to originate in and draw its vitality from a moral sensibility, today even more than in other dramatic moments in our national history. Ethics, understood not as an external discipline but as an inner rule of conduct, is an integral part of acting, with dignity, in every field of social and civic endeavour, from scholarship to the professions to politics. For those who bear responsibility for economic policy, in the present crisis the ethical element is supplemented by an additional duty: namely, not to let problems accumulate, as was the case for too many years, but to suit actions to the great potential of an economy such as ours, which has the capacity for work, enterprise and saving to achieve continued growth.

Appendix

Statistical tables

The world economy

The Italian economy

Money, credit and interest rates

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)			
1987	3.1	4.3	1.4	2.2	4.8	3.1	4.2
1988	3.9	6.3	3.5	4.5	4.4	4.1	5.0
1989	2.5	4.8	4.0	4.1	2.1	2.9	2.3
1990	0.8	4.8	5.0	2.2	0.5	2.2	–0.5
1991	–1.2	4.1	3.6	1.2	–2.2	1.4	–1.7
1992	(2.1)	....	(0.3)	....	....	....	....
1991 – 3rd qtr.	0.3	0.5	–0.1	1.0	0.2	0.2	0.1
4th "	0.1	0.5	–0.5	0.2	–0.1	0.6	..
1992 – 1st qtr.	0.7	1.0	1.9	0.8	–0.7	0.6	0.2
2nd "	0.4	..	–0.2	0.2	–0.2	0.2	0.1
3rd "	0.8	–0.4	–1.3	0.5	0.1	–0.6	0.4
4th "	(0.9)	....	(–1.2)	....	....	....	....
				GNP deflator (% changes on previous period; seasonally adjusted data)			
1987	3.2	..	2.0	2.9	5.0	6.0	4.7
1988	3.8	0.4	1.5	2.8	6.6	6.6	4.6
1989	4.5	1.8	2.6	3.2	7.1	6.2	4.8
1990	4.3	2.3	3.4	3.1	6.3	7.5	3.3
1991	4.0	2.0	4.2	2.6	6.7	7.3	2.7
1992	(2.6)	....	....	....	....	....	....
1991 – 3rd qtr.	0.6	–2.8	0.8	0.4	1.3	1.7	0.2
4th "	0.6	4.5	0.8	1.0	1.1	0.9	0.2
1992 – 1st qtr.	0.8	–2.4	1.3	0.8	1.0	0.8	0.2
2nd "	0.6	3.4	1.2	0.6	1.7	0.8	0.2
3rd "	0.5	–3.4	1.5	0.5	0.4	1.1	0.4
4th "	(0.4)	....	....	....	....	....	....
				Current account balance (billions of dollars; seasonally adjusted data)			
1987	–163.5	87.0	45.6	–5.1	–7.7	–1.5	–8.8
1988	–126.7	79.0	50.6	–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	46.5	–9.5	–29.8	–14.7	–22.0
1991	–3.7	78.1	–19.9	–5.9	–11.5	–20.9	–25.5
1992	....	(116.3)	(–25.3)	....	(–20.6)	....	....
1991 – 3rd qtr.	–11.1	19.5	–3.3	–0.8	–2.2	–6.5	–6.6
4th "	–7.2	22.9	–4.7	0.5	–3.2	–5.9	–7.3
1992 – 1st qtr.	–5.9	28.6	–7.0	–1.3	–5.1	–4.6	–6.2
2nd "	–17.8	28.8	–5.5	1.1	–5.6	–6.9	–6.2
3rd "	–14.2	27.4	–5.5	0.3	–4.2	–8.8	–6.4
4th "	....	(31.5)	(–7.3)	....	(–5.8)	....	....

Table a2

Industrial production

(% changes on previous period; seasonally adjusted data)

	US	Japan	Germany	France	UK	Italy	Canada
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	0.2	–3.0	–2.1	–4.1
1992	(1.4)	(–5.4)	(–1.9)	....	....	....	(0.7)
1990 – 4th qtr.	–1.9	1.4	0.3	–2.6	–1.5	–2.1	–2.7
1991 – 1st qtr.	–2.5	0.2	1.6	0.2	–0.2	–0.4	–2.0
2nd "	0.6	–0.6	0.5	1.0	–1.4	–0.3	1.1
3rd "	1.6	0.3	–1.0	0.7	1.0	–0.6	0.8
4th "	–0.2	–0.9	–1.3	–0.6	–0.1	1.0	–0.9
1992 – 1st qtr.	–0.8	–2.6	2.6	–0.1	–0.8	0.8	–0.2
2nd "	1.3	–2.4	–1.8	0.4	–0.4	–0.6	0.5
3rd "	0.6	0.5	–1.3	–0.4	0.8	–1.9	0.7
4th "	(0.5)	(–2.6)	(–4.6)	....	....	....	(0.8)
1991 – Dec.	–0.6	–1.5	–3.9	–0.8	–0.4	–3.9	–1.4
1992 – Jan.	–0.8	–0.4	5.1	1.0	–1.0	1.0	0.3
Feb.	0.6	–0.6	0.9	–0.4	1.3	2.1	0.8
Mar.	0.4	–2.5	–1.5	–0.4	–0.9	–0.1	0.2
Apr.	0.4	–0.1	–0.7	1.7	0.5	–1.5	0.3
May	0.8	–1.7	..	–1.5	–1.0	2.1	–0.3
June	–0.4	2.2	–1.4	0.3	..	–3.3	–0.1
July	0.9	0.7	–0.3	–0.2	1.1	1.4	–0.4
Aug.	–0.3	–3.8	–0.1	..	–0.1	–1.7	1.9
Sept.	–0.3	4.7	..	0.3	0.4	–1.8	..
Oct.	0.4	–2.5	–2.4	0.8	1.0	2.3	–0.1
Nov.	0.3	–2.1	–2.0	–4.5	–0.6	–1.9	0.3
Dec.	(0.3)	(–1.1)	(–2.6)	....	....	....	(0.4)

Table a3

Consumer prices

(% changes on corresponding period)

	US	Japan	Germany	France	UK	Italy	Canada
1987	3.7	0.1	0.2	3.3	4.1	4.7	4.4
1988	4.1	0.7	1.3	2.7	4.9	5.0	4.0
1989	4.8	2.3	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
1992	3.0	1.7	4.0	2.8	3.7	....	1.5
1990 – 4th qtr.	6.2	3.6	3.0	3.6	10.0	6.7	4.9
1991 – 1st qtr.	5.3	3.7	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	1.9	4.3	3.1	4.1	5.8	1.6
2nd "	3.1	2.3	4.5	3.1	4.2	5.5	1.4
3rd "	3.1	1.8	3.5	2.7	3.6	....	1.3
4th "	3.1	1.0	3.7	2.2	3.1	....	1.8
1992 – Jan.	2.6	1.8	4.0	3.0	4.1	6.1	1.5
Feb.	2.8	2.0	4.3	3.0	4.1	5.8	1.6
Mar.	3.2	2.0	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	5.6	1.4
June	3.1	2.3	4.3	3.0	3.9	5.5	1.1
July	3.2	1.7	3.3	2.9	3.7	5.3	1.3
Aug.	3.1	1.7	3.5	2.7	3.6	5.1	1.2
Sept.	3.1	2.0	3.6	2.6	3.6	....	1.3
Oct.	3.2	1.1	3.7	2.5	3.6	....	1.6
Nov.	3.0	0.7	3.7	2.1	3.0	....	1.7
Dec.	2.9	1.2	3.7	2.0	2.6	....	2.1
1993 – Jan.	....	....	4.4	....	1.7	....	....

Table a4

Wholesale prices

(% changes on corresponding period)

	US	Japan	Germany	France	UK	Italy	Canada
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
1992	(0.6)	(–1.3)	(0.1)	....	(3.7)	....	(0.5)
1990 – 4th qtr.	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 "	0.7	–1.4	1.7	–1.1	3.6	2.0	–0.2
3rd "	1.4	–1.1	–1.0	–0.9	3.5	1.9	1.5
4th "	(1.5)	(–1.1)	(–2.0)	....	(3.3)	....	(3.2)
1991 – 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	0.6	–1.4	1.7	....	3.5	2.0	..
June	1.4	–1.5	1.2	....	3.6	2.1	0.4
July	1.5	–1.2	–0.9	....	3.6	1.9	0.8
Aug.	1.2	–1.1	–0.7	....	3.4	1.9	1.6
Sept.	1.4	–1.1	–1.2	....	3.4	1.8	2.2
Oct.	1.5	–1.3	–1.6	....	3.3	2.0	2.9
Nov.	1.2	–0.9	–2.2	....	3.3	2.2	3.1
Dec.	(1.7)	(–1.0)	(–2.2)	....	(3.5)	....	(3.5)

Table a5

Short-term interest rates

	US	Japan	Germany	France	UK	Italy	Canada
				Official reference rates *(end-of-period data)*			
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	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
Oct.	3.00	3.25	8.25	9.60	8.00	14.00	7.37
Nov.	3.00	3.25	8.25	9.10	7.00	13.00	8.82
Dec.	3.00	3.25	8.25	9.10	7.00	12.00	7.36
1993 – Jan.	3.00	3.25	8.25	9.10	6.00	12.00	6.81
				Money market rates *(period averages)*			
1989	8.11	5.33	7.07	9.40	13.89	....	12.22
1990	7.49	7.59	8.43	10.32	14.77	13.72	11.47
1991	5.37	7.33	9.18	9.62	11.53	12.92	7.42
1992	3.43	4.49	9.46	10.34	9.63	13.87	7.11
1992 – Jan.	3.80	5.26	9.47	9.98	10.66	12.15	7.04
Feb.	3.84	5.34	9.55	10.05	10.37	12.21	7.25
Mar.	4.04	5.13	9.65	10.12	10.62	12.30	7.24
Apr.	3.75	4.69	9.70	10.04	10.60	12.41	6.72
May	3.63	4.69	9.73	9.97	10.07	12.41	6.08
June	3.66	4.63	9.70	10.11	9.99	13.46	5.60
July	3.21	4.39	9.73	10.22	10.15	15.64	5.17
Aug.	3.13	4.06	9.83	10.39	10.36	15.43	4.82
Sept.	2.91	4.12	9.43	11.04	9.99	18.22	7.37
Oct.	2.86	3.92	8.88	11.12	8.32	15.58	6.06
Nov.	3.13	3.83	8.89	9.76	7.21	14.50	8.57
Dec.	3.22	3.77	8.98	11.34	7.16	13.87	7.11
1993 – Jan.	3.00	3.76	8.52	12.10	6.95	12.67	6.56

Table a6

Long-term interest rates and share price indices

(period averages)

	US	Japan	Germany	France	UK	Italy	Canada
				Bond rates			
1989	8.50	5.25	7.03	8.78	9.58	11.61	9.69
1990	8.55	7.38	8.85	9.93	11.08	11.87	10.51
1991	7.86	6.40	8.64	9.03	9.92	11.37	8.97
1992	7.01	5.12	7.98	8.57	9.13	11.90	8.54
1992 – Jan.	7.03	5.29	8.10	8.45	9.34	10.98	8.92
Feb.	7.32	5.40	8.10	8.51	9.21	10.93	8.97
Mar.	7.54	5.38	8.10	8.67	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	8.59	8.98	11.04	9.17
June	7.26	5.43	8.30	8.72	9.03	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	9.04	9.13	12.48	8.19
Sept.	6.42	4.87	8.00	8.71	9.15	13.54	8.53
Oct.	6.59	4.80	7.40	8.36	9.24	13.28	8.33
Nov.	6.87	4.65	7.30	8.08	8.84	12.16	8.66
Dec.	6.77	4.59	7.30	8.14	8.84	12.31	8.54
1993 – Jan.	6.60	4.40	7.00	7.84	8.91	11.75	8.67
				Share price indices (1975=100)			
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
1992	488.15	437.57	302.24	682.47	919.71	710.79	....
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	340.29
Sept.	491.30	440.40	279.80	657.50	869.10	566.90	329.79
Oct.	484.33	417.22	270.42	622.22	917.62	618.80	333.61
Nov.	496.47	408.11	277.09	640.03	965.33	695.60	328.28
Dec.	511.46	423.89	275.09	642.74	994.72	663.88	....
1993 – Jan.	511.01	409.96	282.11	654.07	1,015.40	728.45	....

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**				
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
1992	3.70	4.33	9.36	9.53	13.48	4.10	4.14	9.04	9.34	13.10
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
Oct.	3.25	3.78	8.73	8.17	14.85	3.52	3.59	7.92	7.50	13.96
Nov.	3.63	3.70	8.80	7.07	14.15	3.92	3.56	7.79	6.51	13.20
Dec.	3.45	3.68	8.75	7.09	13.59	3.96	3.56	7.75	6.75	13.25
1993 – Jan.	3.19	3.60	8.34	6.85	12.40	3.73	3.41	7.42	6.48	12.33
	3-month US dollar premium (–)/discount (+)					**12-month US dollar premium (–)/discount (+)**				
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
1992		–0.63	–5.65	–5.82	–9.77		–0.04	–4.94	–5.24	–9.00
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
Oct.		–0.53	–5.48	–4.92	–11.60		–0.07	–4.40	–3.98	–10.44
Nov.		–0.07	–5.17	–3.44	–10.52		0.36	–3.87	–2.59	–9.28
Dec.		–0.23	–5.30	–3.64	–10.14		0.40	–3.79	–2.79	–9.29
1993 – Jan.		–0.41	–5.15	–3.66	–9.21		0.32	–3.69	–2.75	–8.60

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	
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
1992	1,232.3	9.7399	790.04	233.11	2,163.4	878.52	1,736.4	1,592.2	329.10
1990 – 4th qtr.	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
4th "	1,361.5	11.0670	878.60	258.86	2,146.9	981.06	1,911.3	1,719.8	329.10
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	1,702.7	1,605.8	348.50
Oct.	1,307.2	10.7885	881.92	259.99	2,163.8	993.48	1,875.6	1,723.0	339.25
Nov.	1,364.4	11.0138	859.55	254.12	2,083.2	954.29	1,892.5	1,686.3	334.20
Dec.	1,415.3	11.4119	894.18	262.41	2,192.7	994.82	1,937.4	1,749.8	329.10
1993 – Jan.	1,490.1	11.9141	922.83	272.20	2,283.3	1,007.95	2,052.0	1,808.2	330.45

Table a9

Nominal effective exchange rates

(period averages; indices, 1987=100)

	US	Canada	Japan	Germany	France	UK	Italy	Switzerland
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
1992	89.4	106.9	108.9	104.5	102.3	97.6	94.2	95.6
1990 – 4th qtr.	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	106.2	107.5	105.4	102.8	100.4	96.4	97.3
4th "	90.8	102.7	113.7	107.5	105.4	88.0	85.6	98.5
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.	86.2	107.0	105.8	105.4	102.5	101.6	98.3	96.7
Sept.	86.6	104.3	109.6	106.5	103.7	97.6	93.0	99.4
Oct.	88.4	103.1	113.3	108.1	105.8	89.3	85.7	100.0
Nov.	91.9	102.5	113.8	106.7	105.1	86.4	87.1	97.3
Dec.	92.2	102.3	114.0	107.7	105.1	88.3	84.0	98.2
1993 – Jan.	93.4	102.3	114.0	107.8	105.9	88.9	81.1	96.4

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	99.0	108.0	97.3	98.9
1989	99.6	110.4	99.5	96.5	97.4	105.5	99.6	93.8
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	97.0	113.3	104.3	95.3
1990 – 3rd qtr.	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	111.6	103.6	98.4
1991 – 1st qtr.	93.3	105.6	94.4	100.9	98.7	113.9	105.1	97.8
2nd "	97.4	107.7	95.9	98.1	96.7	113.3	103.8	96.0
3rd "	97.8	107.0	96.8	99.2	96.0	112.8	103.6	93.7
4th "	93.9	105.7	99.7	100.8	96.6	113.3	104.5	93.5
1992 – 1st qtr.	93.9	102.6	100.7	101.2	96.9	114.4	105.2	91.3
2nd "	95.2	100.8	98.0	101.3	97.8	117.0	104.7	89.5
3rd "	91.8	98.8	98.4	104.3	99.9	115.8	104.2	93.8
1991 – Nov.	93.8	105.9	99.4	100.7	96.6	113.3	104.5	93.0
Dec.	92.4	104.3	100.0	101.9	97.4	114.1	104.8	94.0
1992 – Jan.	91.9	103.4	102.5	101.6	96.9	114.4	105.1	92.8
Feb.	93.8	102.2	101.3	101.1	96.7	114.5	105.5	91.0
Mar.	96.0	102.2	98.2	101.0	97.1	114.3	105.0	90.2
Apr.	96.1	102.2	96.9	101.3	97.3	116.0	104.8	89.0
May	95.5	100.6	97.9	101.2	97.9	117.5	104.8	88.9
June	94.2	99.7	99.2	101.6	98.2	117.5	104.6	90.5
July	92.2	99.4	98.1	103.1	99.2	117.6	105.7	92.5
Aug.	91.4	99.6	96.9	104.3	99.6	117.2	106.3	93.1
Sept.	91.8	97.4	100.2	105.5	100.8	112.7	100.6	95.7
Oct.	93.9	96.6	103.2	106.9	102.9	103.1	93.2	96.3
Nov.	97.3	96.6	103.6	105.5	102.2	100.1	95.1	93.7

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	98.2	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	97.9	95.8	98.0	112.3	95.3	103.3	110.5
1990 – 3rd qtr.	100.7	98.5	96.6	108.7	96.3	101.7	110.7
4th "	100.4	97.9	97.4	108.1	97.4	101.6	109.6
1991 – 1st qtr.	98.1	96.5	97.8	110.5	96.2	103.2	111.2
2nd "	98.0	96.2	97.2	113.7	94.5	103.6	111.1
3rd "	97.7	95.4	98.2	113.1	95.3	103.2	110.2
4th "	98.0	95.2	98.8	111.8	95.2	103.2	109.5
1992 – 1st qtr.	97.2	95.3	99.0	112.5	94.2	103.7	110.1
2nd "	97.0	95.9	98.6	114.5	93.7	102.8	109.7
3rd "	97.3	96.9	100.3	110.9	93.6	101.2	107.2
1991 – Nov.	98.4	95.1	98.7	111.7	95.3	103.2	109.8
Dec.	97.5	95.4	99.3	111.5	94.9	102.9	109.0
1992 – Jan.	97.4	95.1	99.2	112.1	94.7	103.4	109.9
Feb.	97.1	95.1	98.9	112.7	94.2	104.0	110.7
Mar.	97.0	95.6	99.0	112.7	93.8	103.6	109.7
Apr.	97.1	95.6	98.8	114.0	93.4	103.2	109.7
May	96.8	95.9	98.4	115.0	93.8	102.9	109.9
June	97.1	96.0	98.6	114.5	93.8	102.5	109.5
July	97.1	96.4	99.1	112.9	93.1	102.8	108.7
Aug.	96.5	96.3	99.7	111.6	93.6	103.0	108.1
Sept.	98.4	98.0	102.0	108.0	94.1	97.8	104.7
Oct.	100.8	101.2	105.1	100.1	96.3	91.2	101.1
Nov.	100.5	101.3	104.7	98.7	96.0	93.6	100.2

Table a12

External position of the Italian credit system

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

VIS-A-VIS	1992–Q1	1992–Q2	1992–Q3
Industrial countries	(198,664)	(201,341)	(236,574)
OPEC countries	(8,517)	(8,405)	(9,001)
Other developing countries	(10,391)	(10,246)	(10,554)
of which: Latin America	(5,947)	(5,937)	(6,050)
Africa	(1,147)	(1,198)	(1,215)
Asia	(2,768)	(2,603)	(2,870)
Middle East	(528)	(507)	(420)
Eastern Europe	(9,916)	(9,469)	(10,380)
Offshore centres	(24,968)	(27,785)	(29,092)
International organizations	(3,127)	(3,307)	(4,034)
Total	**(255,583)**	**(260,553)**	**(299,635)**
Memorandum item:			
Argentina	(1,832)	(1,811)	(1,953)
Bolivia	(5)	(5)	(6)
Brazil	(1,053)	(1,066)	(1,027)
Chile	(149)	(152)	(155)
Colombia	(178)	(182)	(180)
Ivory Coast	(11)	(25)	(30)
Ecuador	(227)	(154)	(228)
Philippines	(132)	(110)	(84)
Yugoslavia	(507)	(530)	(460)
Morocco	(445)	(447)	(479)
Mexico	(2,205)	(2,159)	(2,138)
Nigeria	(1,042)	(954)	(878)
Peru	(144)	(142)	(107)
Uruguay	(59)	(60)	(53)
Venezuela	(928)	(914)	(987)
Total	**(8,917)**	**(8,711)**	**(8,765)**
Albania	(87)	(87)	(99)
Bulgaria	(679)	(676)	(789)
Czechoslovakia	(105)	(98)	(137)
Poland	(1,792)	(1,709)	(1,689)
Romania	(27)	(29)	(50)
Hungary	(336)	(321)	(286)
Ex-USSR	(6,891)	(6,549)	(7,329)

Table a13

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 – 3rd qtr.	1.0	1.0	1.0	–0.5	0.2	–0.1	0.8	3.7	0.7
4th "	–0.1	–0.4	–0.2	0.5	–1.4	–0.5	0.9	–4.6	0.4
1991 – 1st qtr.	0.4	–0.8	0.2	–0.1	–1.7	–0.9	0.6	1.7	–1.1
2nd "	0.5	2.5	1.0	1.3	1.6	1.5	0.7	6.8	–2.8
3rd "	0.2	1.1	0.4	1.1	3.9	2.5	0.3	–0.5	–0.8
4th "	0.6	1.2	0.7	–0.2	1.0	0.4	0.9	–2.8	3.2
1992 – 1st qtr.	0.6	4.3	1.4	..	–2.8	–1.4	0.5	2.2	5.8
2nd "	0.2	–0.7	..	–0.9	–3.1	–2.0	0.5	6.3	–3.7
3rd "	–0.6	–0.4	–0.6	–0.3	–1.3	–0.8	–0.1	–8.0	4.1
				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	2.6
1991	7.3	–0.1	6.0	8.3	2.5	5.5	6.7	6.8	2.7
1990 – 3rd qtr.	1.5	1.2	1.4	1.5	1.0	1.2	1.7	0.1	1.4
4th "	2.5	5.9	3.1	1.9	0.4	1.2	1.7	12.9	1.5
1991 – 1st qtr.	1.8	–3.1	1.0	1.2	0.5	0.9	1.7	–1.1	0.5
2nd "	1.7	–1.3	1.1	2.8	0.9	1.9	1.7	–2.3	0.3
3rd "	1.7	0.6	1.5	3.4	0.4	1.9	1.6	1.2	1.1
4th "	0.9	–1.4	0.5	1.3	0.9	1.1	1.3	–0.7	–1.0
1992 – 1st qtr.	0.8	0.1	0.5	0.6	0.9	0.9	1.1	–0.1	–0.5
2nd "	0.8	0.1	0.8	0.9	1.1	1.1	1.2	–2.4	0.6
3rd "	1.1	–0.7	0.8	0.2	0.1	0.2	1.0	4.9	–1.1

Table a14

Industrial production and business opinion indicators

(seasonally adjusted data)

	INDUSTRIAL PRODUCTION				ISCO BUSINESS OPINION INDICATORS				
	General index	Consumer goods	Investment goods	Intermedi-ate goods	Changes in level of orders			Expected demand in 3-4 months	Stocks of finished goods vis-à-vis normal
					Domestic	Foreign	Total		
	(indices, 1985=100)				*(average balance of monthly responses)*				
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	–9.3	–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
1992	....	....	....	....	–32.0	–36.9	–32.0	1.9	7.2
1988 – 4th qtr. ...	116.1	113.3	120.5	115.8	8.7	–3.7	7.8	28.4	–11.7
1989 – 1st qtr. ...	115.7	112.1	120.7	115.4	6.0	–3.3	9.1	24.7	–8.0
2nd " ...	116.4	114.3	119.6	115.9	–0.4	–5.8	2.0	22.6	–1.7
3rd " ...	118.2	116.5	123.9	119.0	–2.7	–3.8	0.8	23.0	–4.3
4th " ...	120.2	115.5	128.1	119.6	–1.0	–10.1	–0.6	21.8	–2.3
1990 – 1st qtr. ...	118.2	114.1	126.9	116.7	–0.4	–10.1	–1.0	17.4	–2.0
2nd " ...	118.1	114.5	127.0	116.4	–5.0	–8.9	–1.6	15.4	2.3
3rd " ...	118.7	118.1	125.8	118.9	–12.0	–20.1	–9.5	6.3	6.7
4th " ...	116.2	116.1	121.9	114.1	–20.0	–25.3	–17.6	8.3	7.7
1991 – 1st qtr. ...	115.7	116.2	120.1	114.1	–28.8	–34.5	–27.8	9.8	9.7
2nd " ...	115.3	114.7	119.6	114.3	–27.7	–32.0	–27.6	10.8	9.7
3rd " ...	114.7	115.6	118.0	113.7	–26.2	–30.8	–25.3	12.9	8.3
4th " ...	115.8	116.8	114.3	115.2	–27.3	–28.9	–26.0	11.4	6.3
1992 – 1st qtr. ...	116.8	118.6	116.3	116.5	–25.7	–30.0	–24.3	11.0	11.3
2nd " ...	116.1	118.9	112.9	115.5	–26.7	–38.1	–29.0	7.8	11.0
3rd " ...	113.9	116.8	110.2	113.7	–33.7	–39.0	–35.4	–3.1	5.3
4th " ...	....	....	....	....	–41.9	–40.7	–39.3	–7.9	1.0

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	5,023	1,930	12,810	21,580	2,685	24,264	11.1	11.9	42.5
2nd "	1,840	4,968	1,963	12,850	21,622	2,641	24,263	10.9	11.9	42.5
3rd "	1,829	4,894	1,984	12,897	21,604	2,620	24,224	10.8	11.8	42.4
4th "	1,791	4,821	1,992	12,954	21,558	2,661	24,219	11.0	12.0	42.4
1992 – 1st qtr.	1,784	4,823	2,001	13,001	21,610	2,677	24,287	11.0	12.2	42.5
2nd "	1,788	4,804	2,013	12,951	21,556	2,679	24,235	11.1	12.1	42.4

Table a16

Wholesale and consumer prices

(% changes on corresponding period)

	Wholesale prices				Consumer prices				Cost of living	*Scala mobile* index
	Consumer goods	Investment goods	Intermediate goods	Total	Food	Non-food products	Services	Total		
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
1992	....	....	....	....	....	....	....	....	5.4	....
1990 – 4th qtr.	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	6.0	3.8	7.5	5.5	5.6	5.3
3rd "	3.4	3.2	0.9	1.7	....	....	....	....	5.3	4.1
4th "	....	....	....	....	....	....	....	....	4.9	3.6
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	6.0	4.0	7.5	5.6	5.7	5.3
June	4.8	3.2	1.1	2.3	5.6	4.0	7.4	5.5	5.5	4.7
July	4.2	3.2	1.4	2.3	5.1	3.9	7.1	5.3	5.5	4.3
Aug.	3.3	3.4	1.1	1.7	4.6	3.8	7.4	5.1	5.3	4.0
Sept.	2.8	3.2	0.1	1.0	....	....	....	....	5.2	4.0
Oct.	2.9	3.5	2.3	2.5	....	....	....	....	5.0	3.7
Nov.	2.3	3.5	2.4	2.4	....	....	....	....	4.9	3.6
Dec.	....	....	....	....	....	....	....	....	4.8	3.4
1993 – Jan.	....	....	....	....	....	....	....	....	4.3	....

Balance of payments on a settlements basis

(billions of lire)

	Goods (*cif-fob*)	Services and transfers				Current account balance	Non-bank capital flows	Bank capital flows	Errors and omissions	Change in official reserves
		Foreign travel	Income from capital	Other	Total					
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)
1992	....	....	....	....	....	....	(–11,865)	(25,179)	....	(32,549)
1991 – 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	(–1,093)	(449)	(–2,857)	(–558)	(–2,966)	(–4,059)	(–9,762)	(7,093)	(–3,774)	(10,502)
Aug.	(705)	(–211)	(–1,342)	(–800)	(–2,353)	(–1,648)	(–2,060)	(1,574)	(–2,438)	(4,572)
Sept. ...	(–3,964)	(277)	(–2,510)	(–992)	(–3,225)	(–7,189)	(–2,273)	(–25,881)	(5,485)	(29,858)
Oct.	....	....	....	....	....	....	(12,583)	(–3,021)	....	(–10,216)
Nov.	....	....	....	....	....	....	(10,607)	(–3,775)	....	(–3,330)
Dec.	....	....	....	....	....	....	(6,412)	(7,549)	....	(–12,918)

Balance of payments on a transactions basis

(billions of lire)

	Goods (*fob-fob*)	Services and transfers				Current account balance	Non-bank capital flows	Bank capital flows	Errors and omissions	Change in official reserves
		Foreign travel	Income from capital	Other	Total					
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	(–910)	(8,402)	(–19,992)	(–13,713)	(–25,303)	(–26,213)	(–12,786)	(39,369)	(–8,941)	(8,571)
1992	....	....	....	....	....	....	....	(25,179)	....	(32,549)
1990 – 4th qtr.	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 "	(–1,163)	(3,378)	(–5,310)	(–2,849)	(–4,781)	(–5,944)	(–10,515)	(16,761)	(–2,426)	(2,124)
3rd "	(911)	(2,014)	(–5,676)	(–2,055)	(–5,717)	(–4,806)	(–9,930)	(12,725)	(475)	(1,536)
4th "	(2,076)	(1,468)	(–4,936)	(–4,696)	(–8,164)	(–6,088)	(–9,266)	(6,835)	(–4,170)	(12,689)
1992 – 1st qtr.	(–3,695)	(1,357)	(–4,430)	(–4,498)	(–7,571)	(–11,266)	*(–13,254)*	(23,284)	*(544)*	(692)
2nd "	(–1,462)	(2,631)	(–5,719)	(–2,692)	(–5,780)	(–7,242)	*(–16,158)*	(18,356)	*(–8,345)*	(13,389)
3rd "	(4,117)	(515)	(–6,709)	(–5,249)	(–11,443)	(–7,326)	*(–18,812)*	(–17,214)	*(–1,580)*	(44,932)
4th "	....	....	....	....	....	....	....	(753)	....	(–26,464)

Table a18

External position of BI-UIC

	Short-term position							Medium and long-term position			Overall position
	Assets					Liabilities	Net short-term position	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 – 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)	(17,080)	(604)	(57,780)	(10,879)	(10,737)	(1,135)	(67,524)
Aug. .	(28,435)	(1,048)	(2,494)	(9,336)	(12,683)	(617)	(53,379)	(10,340)	(10,200)	(1,123)	(62,596)
Sept.	(26,228)	(1,158)	(2,805)	(10,383)	(14,391)	(27,319)	(27,646)	(6,579)	(6,419)	(1,281)	(32,944)
Oct. .	(26,228)	(1,174)	(2,842)	(10,211)	(25,749)	(27,439)	(38,765)	(6,697)	(6,535)	(1,298)	(44,164)
Nov. .	(26,228)	(329)	(3,767)	(10,412)	(32,249)	(28,002)	(44,983)	(5,462)	(5,293)	(1,355)	(49,090)
Dec. .	(29,944)	(345)	(3,588)	(1,880)	(36,554)	(7,816)	(64,495)	(4,166)	(3,989)	(1,421)	(67,240)
						(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 – 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)	(15,265)	(540)	(50,848)	(9,723)	(9,596)	(1,014)	(59,556)
Aug. .	(24,621)	(972)	(2,314)	(8,660)	(11,765)	(572)	(47,760)	(9,592)	(9,462)	(1,042)	(56,310)
Sept.	(21,186)	(935)	(2,266)	(8,387)	(11,624)	(22,067)	(22,331)	(5,314)	(5,185)	(1,035)	(26,611)
Oct. .	(21,186)	(893)	(2,163)	(7,771)	(19,596)	(20,882)	(30,727)	(5,097)	(4,973)	(988)	(34,836)
Nov. .	(21,186)	(235)	(2,693)	(7,445)	(23,058)	(20,021)	(34,596)	(3,905)	(3,784)	(969)	(37,532)
Dec. .	(20,286)	(233)	(2,420)	(1,268)	(24,657)	(5,272)	(43,592)	(2,810)	(2,691)	(959)	(45,444)

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
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	465,853	69,627	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
1992	419,886	74,973	494,859	547,996	62,617	610,613	–115,754	–47,369	–163,123	–163,123	–31
1990 – 4th qtr.	95,134	32,271	127,405	146,018	28,753	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.	80,602	15,390	95,992	91,304	9,643	100,946	–4,955	–36,658	–41,613	–41,613	–8
2nd "	109,549	18,449	127,998	172,312	17,890	190,202	–62,204	30,718	–31,486	–31,486	–20
3rd "	101,996	17,194	119,190	119,283	18,392	137,675	–18,485	–18,901	–37,386	–37,386	–3
4th "	127,740	23,940	151,680	165,097	16,692	181,789	–30,110	–22,527	–52,637	–52,637	..
1991 – Dec.	54,072	15,051	69,123	68,017	18,992	87,009	–17,886	3,913	–13,973	–13,973	..
1992 – Jan.	31,030	1,453	32,483	23,743	382	24,126	8,358	–14,167	–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	5,918	–17,939	–17,939	–14
June	52,546	5,080	57,625	56,223	3,609	59,833	–2,208	11,177	8,970	8,970	–4
July	38,190	5,720	43,909	41,831	9,246	51,077	–7,168	–7,857	–15,025	–15,025	..
Aug.	36,013	6,234	42,247	25,076	7,064	32,140	10,107	–11,835	–1,728	–1,728	–3
Sept.	27,793	5,241	33,034	52,377	2,082	54,459	–21,425	791	–20,634	–20,634	–1
Oct.	27,203	8,752	35,956	37,685	1,120	38,805	–2,850	–10,460	–13,309	–13,309	..
Nov.	37,857	5,040	42,896	75,730	4,347	80,077	–37,181	14,682	–22,499	–22,499	..
Dec.	62,680	10,148	72,828	51,682	11,225	62,907	9,921	–26,750	–16,829	–16,829	..

Table a20

Financing of the state sector borrowing requirement

(billions of lire)

	Medium and long-term securities	of which: net purchases by BI-UIC	Treasury bills	of which: net purchases by BI-UIC	BI-UIC financing other than securities purchases	of which: Treasury overdraft with BI	PO deposits	Foreign loans	Other	Borrowing requirement	of which: monetary base creation
1987	56,090	7,034	27,482	5,818	10,224	9,274	12,917	6,066	1,470	114,250	23,176
1988	60,972	2,343	41,982	7,229	3,704	4,331	10,996	4,227	3,763	125,643	13,349
1989	59,191	3,070	43,143	3,481	1,835	1,842	15,364	8,397	5,923	133,854	8,450
1990	69,799	–9,589	40,515	5,306	2,811	2,909	12,770	14,914	4,451	145,261	–1,383
1991	113,915	–4,238	11,589	–7,790	2,472	2,011	11,694	5,506	7,146	152,322	–9,458
1992	91,327	(–4,369)	46,479	(–5,534)	7,147	7,706	10,587	–172	7,755	163,123	(–2,654)
1990 – 4th qtr. ...	28,614	–7,588	15,083	3,372	5,136	5,005	8,559	2,916	1,515	61,823	943
1991 – 1st qtr. ...	20,610	–2,238	4,044	–2,419	–879	–1,399	1,305	6,529	1,498	33,107	–5,517
2nd " ...	34,153	741	–770	–5,497	–8,214	–7,487	71	–526	207	24,922	–12,942
3rd " ...	27,385	–2,818	4,907	427	10,949	11,216	401	–780	3,052	45,914	8,584
4th " ...	31,767	77	3,408	–302	616	–320	9,918	283	2,389	48,379	417
1992 – 1st qtr. ...	39,112	–2,496	1,713	–2,253	–754	–951	1,100	–796	1,239	41,613	–5,491
2nd " ...	36,829	–1,948	9,420	–2,051	–13,412	–12,777	–700	–943	292	31,486	–17,372
3rd " ...	996	–696	9,114	89	26,836	26,890	986	–90	–456	37,386	26,258
4th " ...	14,391	(772)	26,232	(–1,320)	–5,524	–5,456	9,201	1,657	6,680	52,637	(–6,050)
1991 – Dec.	4,500	14	–1,537	–1,082	–1,545	–2,001	10,133	133	2,290	13,973	–2,607
1992 – Jan.	8,374	–212	329	–485	–4,823	–4,197	2,400	3	–472	5,810	–5,513
Feb.	12,047	–1,290	1,402	–1,408	–2,179	–2,121	–1,400	–1,141	351	9,080	–4,872
Mar.	18,691	–994	–17	–360	6,248	5,366	100	342	1,360	26,723	4,894
Apr.	7,759	–1,010	1,978	–144	14,831	15,970	–1,650	–549	147	22,517	13,700
May	17,661	–948	7,386	–1,297	–7,438	–6,955	850	–726	205	17,939	–9,674
June	11,408	10	56	–611	–20,805	–21,791	100	332	–60	–8,970	–21,398
July	4,289	–571	1,705	275	9,295	9,285	201	–32	–433	15,025	9,016
Aug.	–742	47	1,218	–225	283	93	805	6	158	1,728	110
Sept.	–2,552	–173	6,192	39	17,258	17,512	–20	–64	–181	20,634	17,132
Oct.	3,081	613	9,772	–849	1,128	645	–520	36	–188	13,309	892
Nov.	8,463	38	9,898	–466	5,369	5,814	–1,151	–629	549	22,499	4,957
Dec.	2,848	(121)	6,562	(–4)	–12,021	–11,915	10,871	2,250	6,320	16,829	(–11,899)

The state sector 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	Foreign debt	TOTAL
1984	209,337	153,871	50,626	6,427	3,091	423,351	92,864	16,285	532,500
1985	297,190	152,034	59,693	6,013	4,036	518,966	120,286	18,205	657,457
1986	378,808	160,334	70,960	6,641	3,002	619,744	130,955	17,379	768,077
1987	436,625	192,332	83,877	8,067	3,046	723,947	137,968	23,322	885,237
1988 – 1st qtr. . .	450,133	204,973	86,519	8,006	2,842	752,473	136,233	24,668	913,373
2nd " . .	463,745	216,822	86,783	7,539	2,638	777,527	135,601	25,734	938,862
3rd " . .	473,269	240,043	87,969	9,660	3,577	814,519	138,859	28,334	981,711
4th " . .	494,139	239,596	94,873	11,548	3,385	843,541	140,522	28,586	1,012,650
1989 – 1st qtr. . .	500,403	258,628	97,000	12,558	3,293	871,882	139,905	31,848	1,043,635
2nd " . .	511,243	262,905	98,400	14,310	4,402	891,260	133,209	32,258	1,056,726
3rd " . .	532,043	273,656	100,323	15,991	4,974	926,987	133,939	35,768	1,096,695
4th " . .	547,133	285,628	110,237	16,628	4,228	963,854	147,474	34,979	1,146,307
1990 – 1st qtr. . .	554,170	299,985	112,897	17,306	4,199	988,556	147,154	36,762	1,172,472
2nd " . .	587,827	303,465	113,716	18,558	4,236	1,027,801	126,564	41,498	1,195,862
3rd " . .	602,252	314,336	114,449	19,370	4,423	1,054,828	131,858	46,374	1,233,061
4th " . .	631,003	320,101	123,007	19,802	5,506	1,099,419	147,752	48,656	1,295,826
1991 – 1st qtr. . .	647,144	327,311	124,312	21,181	5,624	1,125,572	149,722	57,166	1,332,461
2nd " . .	679,280	331,884	124,383	21,236	5,776	1,162,559	138,932	57,777	1,359,267
3rd " . .	713,623	336,118	124,784	23,605	6,460	1,204,590	145,357	55,497	1,405,444
4th " . .	729,682	335,342	134,701	25,623	6,830	1,232,178	166,923	54,699	1,453,799
1992 – Jan.	730,721	337,390	137,101	26,692	5,290	1,237,194	168,053	55,576	1,460,822
Feb.	735,167	337,382	135,701	26,541	5,792	1,240,582	175,175	54,561	1,470,318
Mar.	766,110	337,734	135,801	27,770	5,922	1,273,338	169,108	55,098	1,497,544
Apr.	779,603	342,740	134,151	27,809	6,030	1,290,335	175,640	54,596	1,520,571
May	787,317	349,162	135,001	28,325	5,720	1,305,525	179,668	53,640	1,538,833
June	786,028	346,542	135,101	28,205	5,779	1,301,655	174,502	53,016	1,529,173
July	780,025	350,013	135,302	28,072	5,479	1,298,892	191,882	52,387	1,543,161
Aug.	793,087	352,863	136,108	28,139	5,570	1,315,767	177,812	51,972	1,545,552
Sept.	779,021	358,549	136,088	28,057	5,471	1,307,185	211,053	58,496	1,576,734
Oct.	774,855	369,712	135,568	28,061	5,279	1,313,476	218,367	58,606	1,590,448
Nov.	778,795	379,502	134,418	28,169	5,720	1,326,603	230,002	59,924	1,616,529
Dec.	(791,016)	(386,984)	(145,288)	(34,069)	(6,140)	(1,363,496)	(209,476)	(64,500)	(1,637,472)

Table a22

Monetary base

(flows in billions of lire)

	SOURCES					TOTAL	USES				
							Currency in circulation	Bank reserves			
								Deposits with the Bank of Italy		Other	Total
	Foreign sector	Treasury	Open market	Refi-nancing	Other sectors				of which: compulsory reserves		
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
1992	(−32,590)	(−2,654)	(42,130)	(172)	*(1,413)*	*(8,471)*	*(9,252)*	(114)	(1,012)	(−895)	(−781)
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	−10,492	9,016	6,672	2,941	−1,475	6,661	5,536	1,577	−926	−452	1,125
Aug.	−4,516	110	−13,466	9,135	−708	−9,444	−3,501	−6,466	−713	522	−5,943
Sept.	−29,884	17,132	14,350	388	−480	1,507	2,721	−932	−4,642	−283	−1,214
Oct.	10,061	892	6,180	−16,385	308	1,055	290	781	1,130	−16	765
Nov.	3,423	4,957	7,105	−7,751	−161	7,573	1,255	3,837	4,670	2,481	6,319
Dec.	(12,918)	(−11,899)	(−8,458)	(7,001)	*(3,915)*	*(3,476)*	*(5,625)*	(−1,236)	(−937)	(−913)	(−2,148)
1993 – Jan.	(−758)	(−2,618)	(7,947)	(−7,013)	*(1,614)*	*(−828)*	*(−3,060)*	(3,275)	(2,062)	(−1,042)	(2,232)

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			
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
1992	163,123	(−50,266)	(−59,768)	(−39,593)	(1,917)	(−147,710)	−18,067	(−165,777)	(−2,654)
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	17,939	−8,297	−7,836	−5,757	−5,403	−27,293	−320	−27,612	−9,674
June	−8,970	−667	−4,423	−8,409	1,434	−12,065	−364	−12,428	−21,398
July	15,025	−1,430	−3,450	−2,456	1,046	−6,290	281	−6,009	9,016
Aug.	1,728	−1,443	−3,467	2,090	2,165	−654	−963	−1,618	110
Sept.	20,634	−6,153	−1,809	1,785	2,403	−3,774	273	−3,501	17,132
Oct.	13,309	−10,139	−4,891	944	997	−13,089	672	−12,417	892
Nov.	22,499	−9,098	−3,303	−8,467	2,079	−18,789	1,247	−17,542	4,957
Dec.	16,829	(−6,566)	(−1,357)	(−2,982)	(1,612)	(−9,292)	−19,436	(−28,728)	(−11,899)
1993 – Jan.	(10,000)	(−4,750)	(−1,479)	(−8,973)	(3,123)	(−12,079)	−539	(−12,618)	(−2,618)

Monetary base

(stocks in billions of lire)

	SOURCES							
	Foreign sector		BI-UIC financing of the Treasury				Refinancing	Other sectors
		of which: foreign currency swaps	Total	of which: Government securities and Treasury c/c	of which: Treasury overdraft with BI	Memorandum item: undrawn overdraft facility		
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	94,171	–	165,518	87,739	73,074	9,121	8,796	–58,143
1992 – Jan.	93,288	–	166,792	93,828	68,877	19,769	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	20,572	16,581	–57,373
Aug.	62,475	–	174,736	101,470	68,724	20,772	25,716	–57,725
Sept.	32,797	–	206,218	115,686	86,236	3,289	26,105	–58,411
Oct.	43,883	13,140	213,289	121,630	86,880	3,091	9,719	–59,127
Nov.	48,902	17,485	225,351	128,306	92,694	–2,479	1,968	–60,884
Dec.	(67,052)	31,588	(204,994)	(119,965)	(80,780)	(9,499)	(8,969)	*(–62,201)*
1993 – Jan.	(66,294)	31,880	(210,323)	(127,960)	(78,173)	(14,937)	(1,956)	(–60,587)

	USES						Total monetary base
	Currency in circulation		Bank reserves				
	Total	of which: notes and coins	Deposits with the Bank of Italy	of which: compulsory reserves	Other	Total	
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	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	79,216	79,063	131,501	130,419	3,929	135,430	214,646
Aug.	75,715	75,593	125,035	129,706	4,452	129,487	205,202
Sept.	78,436	78,288	124,104	125,064	4,169	128,273	206,709
Oct.	78,726	78,597	124,885	126,194	4,153	129,038	207,764
Nov.	79,981	79,844	128,722	130,864	6,634	135,356	215,337
Dec.	*(85,606)*	*(85,464)*	(127,486)	(129,927)	(5,721)	(133,208)	*(218,814)*
1993 – Jan.	(82,546)	(82,338)	(130,761)	(131,989)	(4,679)	(135,440)	(217,986)

Monetary base and BI operations:

(stoks in billions

	MONETARY BASE								
	Currency in circulation	Bank reserves							TOTAL
		Deposits with the Bank of Italy	of which: excess reserves	Cash	Undrawn facilities	Total	Percentage changes (over 12 months)		
1990	69,569	125,698	197	4,390	897	130,986	9.6	200,555
1991	77,150	129,111	196	4,719	900	134,730	8.9	211,880
1992 – Jan.	72,176	130,902	132	3,831	696	135,429	9.9	207,605
Feb.	71,262	137,282	130	3,565	349	141,196	9.7	212,458
Mar.	72,574	128,925	133	3,599	483	133,007	6.2	205,581
Apr.	73,443	127,591	119	3,656	376	131,622	5.8	205,064
May	73,860	131,191	127	3,591	266	135,049	7.5	208,909
June	73,693	131,485	139	3,958	215	135,658	8.1	209,350
July	77,784	130,538	125	3,943	194	134,675	8.7	212,459
Aug.	76,316	129,815	128	4,017	169	134,001	7.3	210,317
Sept.	78,452	125,195	132	3,785	210	129,191	4.6	207,642
Oct.	78,814	126,310	105	3,814	586	130,710	3.9	209,524
Nov.	80,677	131,019	139	4,463	900	136,382	6.7	217,058
Dec.	86,173	130,055	127	(4,986)	511	(135,553)	(4.2)	(221,726)
1993 – Jan.	81,850	132,095	113	(4,000)	569	(136,664)	(3.1)	(218,513)

Table a24

averages of daily data

of lire)

Percentage changes (over 12 months)	BI OPERATIONS							
	Temporary operations						Ordinary and fixed-term advances	TOTAL
	Repurchase agreements			Foreign currency swaps				
	Purchases	Sales	Total	Purchases	Sales	Total		
10.2	1,912	1,052	861	–	–	–	4,447	5,308
9.7	17,018	89	16,929	–	–	–	2,618	19,548
9.5	28,228	203	28,025	..	..	..	1,853	29,878
9.0	40,771	103	40,668	–	–	–	1,901	42,569
7.0	29,752	155	29,597	–	–	–	1,581	31,178
7.7	22,665	193	22,472	–	–	–	1,544	24,016
8.8	30,731	134	30,597	–	–	–	4,001	34,598
8.3	41,828	..	41,828	–	–	–	7,954	49,782
9.1	44,351	..	44,351	–	–	–	14,432	58,782
8.5	38,270	..	38,270	–	–	–	18,753	57,023
8.1	41,053	..	41,053	–	–	–	18,851	59,904
7.7	51,609	55	51,554	7,233	..	7,233	3,532	68,275
9.2	49,201	220	48,981	17,702	..	17,702	908	67,591
(7.1)	41,277	206	41,071	26,498	..	26,498	4,951	72,520
(6.9)	43,425	290	43,134	31,777	..	31,777	2,041	76,953

BI-UIC operations in government securities

(billions of lire)

	PRIMARY MARKET			OPEN MARKET	of which: repurchase agreements			VARIATIONS IN BI-UIC PORTFOLIO
	subscriptions	redemptions	net subcriptions		temporary purchases	temporary sales	other	
				Total				
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
1992	(7,159)	(17,062)	(–9,903)	(42,130)	20,256	..	–1,950	(32,227)
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.	1,187	1,320	–134	14,350	12,784	..	–313	14,216
Oct.	813	1,049	–236	6,180	954	..	–302	5,944
Nov.	43	472	–428	7,105	5,378	..	–1,290	6,676
Dec.	(123)	(6)	(117)	(–8,458)	–6,981	..	335	(–8,341)
1993 – Jan.	(55)	(7)	(48)	(7,947)	8,767	..	–410	(7,995)
				of which: **Treasury bills**				
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
1992	(5,300)	(10,834)	(–5,534)	(1,243)	6,384	..	–1,350	(–4,291)
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	989	1,629	..	–352	1,028
Oct.	..	849	–849	–673	429	..	167	–1,523
Nov.	..	466	–466	776	1,638	..	–1,065	310
Dec.	..	(4)	(–4)	(–642)	2,551	..	315	(–646)
1993 – Jan.	..	..	..	(–3,170)	–3,061	..	–315	(–3,170)

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				
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
1992	(514)	(1,116)	(–602)	(9,281)	8,059	..	–500	(8,679)
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.	78	..	78	4,111	3,870	..	..	4,189
Oct.	130	..	130	1,564	–41	..	–200	1,694
Nov.	11	1	10	3,825	3,598	..	–150	3,835
Dec.	(105)	(2)	(103)	(–5,379)	–5,206	..	50	(–5,276)
1993 – Jan.	(28)	(7)	(21)	(4,792)	4,200	..	–150	(4,813)
				of which: Treasury bonds				
1990	3,318	7,652	–4,334	8,222	63	..	80	3,889
1991	449	75	374	16,477	7,785	..	–140	16,850
1992	(1,172)	(4,689)	(–3,518)	(27,408)	3,026	..	45	(23,891)
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.	109	359	–250	7,811	5,560	..	90	7,561
Oct.	546	200	346	4,509	–292	..	–270	4,855
Nov.	32	..	32	3,672	1,423	..	–25	3,704
Dec.	(18)	..	(18)	(–2,347)	–3,663	..	20	(–2,329)
1993 – Jan.	(27)	..	(27)	(6,394)	6,461	..	–45	(6,421)

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						
1992 – end–Jan.	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
end– "	13,500	..	13,500	17,000	91	23,408	17,000	..	17,000	96.70	12.47	14.41
mid–Nov.	6,472	10	6,482	8,500	88	10,609	8,500	..	8,500	96.58	13.43	15.53
end– "	12,985	32	13,017	15,000	88	16,877	15,000	..	15,000	96.63	13.22	15.28
mid–Dec.	5,750	..	5,750	8,000	90	9,630	8,000	..	8,000	96.53	13.32	15.40
end– "	18,000	..	18,000	19,000	90	22,711	19,000	..	19,000	96.81	12.17	14.05
1993 – mid–Jan.	8,500	..	8,500	8,500	90	10,521	8,500	..	8,500	97.04	11.23	12.96
end– "	17,000	..	17,000	17,000	91	18,499	17,000	..	17,000	97.15	10.66	12.30
mid–Feb.	8,500	..	8,500	8,250	91	10,678	8,250	..	8,250	97.22	10.38	11.97
						6-month						
1992 – end–Jan.	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
end– "	15,740	260	16,000	17,500	182	22,267	17,500	..	17,500	93.21	13.07	15.14
mid–Nov.	5,615	135	5,750	6,500	179	8,391	6,500	..	6,500	93.25	13.22	15.32
end– "	13,212	38	13,250	15,000	182	15,735	15,000	..	15,000	93.19	13.11	15.19
mid–Dec.	4,000	..	4,000	5,250	182	7,106	5,250	..	5,250	93.13	13.24	15.34
end– "	13,936	4	13,940	14,500	182	20,658	14,500	..	14,500	93.68	12.09	13.99
1993 – mid–Jan.	5,000	..	5,000	5,750	181	9,771	5,750	..	5,750	94.26	10.95	12.66
end– "	13,000	..	13,000	14,500	182	16,684	14,500	..	14,500	94.63	10.13	11.71
mid–Feb.	6,737	13	6,750	7,750	185	8,845	7,750	..	7,750	94.47	10.28	11.88

Table a26 cont.

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						
1992 – end–Jan.	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
end– "	12,240	260	12,500	12,500	364	16,886	12,500	..	12,500	86.75	13.15	15.32
mid–Nov.	3,921	79	4,000	5,000	364	7,707	5,000	..	5,000	86.60	13.32	15.52
end– "	9,657	172	9,829	11,000	365	13,500	11,000	..	11,000	86.70	13.17	15.34
mid–Dec.	2,500	..	2,500	3,250	365	7,943	3,250	..	3,250	86.85	13.00	15.14
end– "	11,750	..	11,750	12,500	365	16,089	12,500	..	12,500	87.85	11.90	13.83
1993 – mid–Jan.	4,750	..	4,750	5,750	364	8,928	5,750	..	5,750	88.50	11.22	13.03
end– "	14,000	..	14,000	15,500	367	16,989	15,500	..	15,500	88.90	10.70	12.42
mid–Feb.	5,500	..	5,500	6,000	367	7,531	6,000	..	6,000	89.40	10.17	11.79
						Total						
1992 – end–Jan.	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
end– "	41,480	520	42,000	47,000	–	62,561	47,000	..	47,000	–	12.87	14.92
mid–Nov.	16,008	224	16,232	20,000	–	26,706	20,000	..	20,000	–	13.33	15.46
end– "	35,854	242	36,096	41,000	–	46,111	41,000	..	41,000	–	13.17	15.26
mid–Dec.	12,250	..	12,250	16,500	–	24,678	16,500	..	16,500	–	13.23	15.33
end– "	43,686	4	43,690	46,000	–	59,458	46,000	..	46,000	–	12.07	13.97
1993 – mid–Jan.	18,250	..	18,250	20,000	–	29,220	20,000	..	20,000	–	11.15	12.89
end– "	44,000	..	44,000	47,000	–	52,172	47,000	..	47,000	–	10.51	12.16
mid–Feb.	20,737	13	20,750	22,000	–	27,054	22,000	..	22,000	–	10.29	11.89

Table a27

Bank of Italy repurchase agreements

	AMOUNT		MATURITY (DAYS)		YIELDS	
	offered	taken up	minimum	maximum	marginal	weighted average
1992 –Oct. 21	6,000	6,000	2	14	14.10	14.23
1992 –Oct. 22	6,000	5,600	4	13	13.85	13.97
1992 –Oct. 23	9,000	8,204	4	14	13.70	13.80
1992 –Oct. 26	8,000	7,935	2	11	13.30	13.56
1992 –Oct. 27	8,000	8,000	12	20	13.35	13.49
1992 –Oct. 28	5,000	4,478	11	19	13.20	13.47
1992 –Oct. 29	4,000	4,000	10	22	13.25	13.33
1992 –Oct. 30	10,000	8,548	5	28	13.00	13.29
1992 –Nov. 3	7,000	7,000	23	24	13.30	13.35
1992 –Nov. 4	8,000	8,000	23	27	13.35	13.44
1992 –Nov. 5	10,000	10,000	25	27	13.35	13.44
1992 –Nov. 6	6,000	4,836	24	26	13.10	13.30
1992 –Nov. 9	3,000	3,000	21	23	13.20	13.26
1992 –Nov. 16	7,000	7,000	23	25	12.70	12.82
1992 –Nov. 17	3,000	3,000	22	24	12.65	12.71
1992 –Nov. 24	9,000	8,969	14	23	12.35	12.79
1992 –Nov. 26	6,000	6,000	9	21	12.35	12.42
1992 –Nov. 27	6,000	6,000	10	24	12.30	12.38
1992 –Nov. 30	10,000	10,000	9	22	12.10	12.23
1992 –Dec. 2	4,500	4,500	13	15	12.40	12.41
1992 –Dec. 4	5,000	5,000	15	22	12.55	12.62
1992 –Dec. 7	7,000	7,000	16	23	12.35	12.53
1992 –Dec. 9	7,500	7,500	14	21	12.20	12.32
1992 –Dec. 11	3,000	3,000	3	18	12.25	12.30
1992 –Dec. 14	3,000	3,000	15	21	12.35	12.39
1992 –Dec. 18	6,000	6,000	11	17	12.70	12.77
1992 –Dec. 21	6,000	6,000	8	15	12.65	12.74
1992 –Dec. 22	8,000	8,000	7	17	12.60	12.66
1992 –Dec. 23	10,000	8,725	5	28	11.60	11.95
1992 –Dec. 24	6,000	6,000	2	23	11.65	11.79
1992 –Dec. 29	10,000	10,000	2	29	11.85	12.01
1992 –Dec. 30	12,000	12,000	4	28	11.60	11.81
1993 –Jan. 4	7,000	7,000	31	31	11.85	11.94
1993 –Jan. 5	4,000	4,000	31	31	12.25	12.31
1993 –Jan. 8	7,000	7,000	32	32	12.25	12.34
1993 –Jan. 18	3,000	3,000	28	28	12.40	12.46
1993 –Jan. 19	4,000	4,000	30	31	12.20	12.27
1993 –Jan. 21	4,000	4,000	32	32	12.05	12.11
1993 –Jan. 22	10,000	10,000	21	21	11.95	12.01
1993 –Jan. 25	9,500	7,525	7	7	11.80	11.97
1993 –Jan. 26	5,500	5,500	23	23	11.75	11.82
1993 –Feb. 3	6,000	6,000	26	26	11.55	11.66
1993 –Feb. 4	7,500	7,500	28	28	10.95	11.20
1993 –Feb. 9	8,500	8,500	6	6	11.15	11.21
1993 –Feb. 11	2,500	2,500	18	18	11.35	11.41
1993 –Feb. 17	5,000	5,000	29	30	11.25	11.32

Table a28

Bank of Italy financing of purchases at Treasury bill auctions

(billions of lire)

	Maximum amount	Actual amount	Maturity (days)
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. 14	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
1992 –Oct. 30	14,579	1,065	13
1992 –Nov. 16	5,212	..	10
1992 –Nov. 30	10,819	..	14
1992 –Dec. 15	4,806	..	6
1992 –Dec. 30	15,076	315	15
1993 –Jan. 15	7,043	..	4
1993 –Jan. 29	13,902	50	7
1993 –Feb. 12	6,331	1,309	3

Table a29

Bank of Italy foreign currency swaps

Auction	AMOUNT		MATURITY IN DAYS	SPOT EXCHANGE RATE	FORWARD POINTS		YIELD	
	Offered	Taken up			Marginal	Weighted average	Marginal	Weighted average
				Purchases of dollars				
1992 – Oct. 27 ...	2,000	2,000	14	1,328.00	5.55	5.64	14.07	14.12
1992 – Oct. 28 ...	4,000	4,000	14	1,323.50	5.60	5.68	14.14	14.19
1992 – Oct. 29 ...	4,000	4,000	7	1,330.00	2.91	2.93	14.51	14.54
1992 – Nov. 4 ...	4,000	4,000	14	1,336.00	5.85	5.88	14.46	14.52
1992 – Nov. 10 ...	2,000	2,000	15	1,366.00	6.26	6.29	14.26	14.31
1992 – Nov. 11 ...	4,000	4,000	14	1,351.50	5.72	5.80	14.15	14.30
1992 – Nov. 18 ...	4,000	4,000	31	1,354.50	11.83	11.88	13.42	13.46
1992 – Nov. 25 ...	6,000	6,000	14	1,382.50	5.65	5.74	13.71	13.87
1992 – Dec. 3 ...	3,000	3,000	7	1,391.00	2.68	2.70	13.04	13.13
1992 – Dec. 9 ...	6,000	6,000	31	1,383.50	12.01	12.26	13.93	14.14
1992 – Dec. 10 ...	3,000	3,000	31	1,403.00	11.69	11.76	13.46	13.51
1992 – Dec. 17 ...	4,000	4,000	31	1,401.00	12.62	12.69	14.06	14.12
1992 – Dec. 23 ...	2,000	3,000	31	1,420.60	11.31	11.52	12.71	12.88
1992 – Dec. 29 ...	3,000	3,000	15	1,463.00	5.35	5.47	13.23	13.45
1993 – Jan. 7 ...	6,000	6,000	31	1,532.00	12.52	12.64	12.77	12.86
1993 – Jan. 11 ...	3,000	3,000	61	1,499.00	23.02	23.13	12.43	12.47
1993 – Jan. 12 ...	3,000	3,000	33	1,468.00	12.30	12.32	12.42	12.43
1993 – Jan. 19 ...	4,000	4,000	32	1,486.50	12.10	12.15	12.37	12.41
1993 – Jan. 26 ...	3,000	3,000	32	1,447.00	11.31	11.38	12.01	12.06
1993 – Feb. 9 ...	5,000	5,000	28	1,535.50	9.31	9.35	10.94	10.97
1993 – Feb. 11 ...	3,000	3,000	28	1,539.50	9.65	9.69	11.19	11.24
				Purchases of Deutschemarks				
1992 – Nov. 6 ...	2,000	2,000	14	857.50	1.85	1.87	14.57	14.61
1992 – Nov. 20 ...	4,000	4,000	7	863.00	0.77	0.78	13.47	13.56
1992 – Nov. 27 ...	4,000	4,000	14	873.00	1.26	1.28	12.66	12.71
1992 – Dec. 11 ...	4,000	4,000	31	888.00	2.87	2.99	12.91	13.07
1993 – Jan. 13 ...	4,000	4,000	14	925.00	1.38	1.40	12.47	12.54
1993 – Jan. 27 ...	4,000	4,000	14	920.00	1.01	1.04	11.58	11.66
1993 – Feb. 10 ...	4,000	4,000	28	926.50	1.72	1.74	11.03	11.06

Table a30

Official rates

	Discount	Ordinary advances (base) *(a)*	Premium *(b)*	Fixed-term advances *(a) + (b)*
1991 – May 13	11.50	11.50	..	11.50
1991 – Nov. 26	11.50	11.50	0.50	12.00
1991 – Dec. 23	12.00	12.00	0.50	12.50
1992 – June 5	12.00	12.00	1.00	13.00
1992 – July 6	13.00	13.00	1.50	14.50
1992 – July 17	13.75	13.75	1.50	15.25
1992 – Aug. 4	13.25	13.25	1.50	14.75
1992 – Sept. 4	15.00	15.00	1.50	16.50
1992 – Oct. 9	15.00	15.00	1.00	16.00
1992 – Oct. 26	14.00	14.00	1.00	15.00
1992 – Nov. 13	13.00	13.00	1.00	14.00
1992 – Dec. 23	12.00	12.00	1.00	13.00
1993 – Feb. 4	11.50	11.50	1.00	12.50

	BI OPERATIONS					
	Discount	Fixed-term advances	Foreign currency swaps			
			Purchases		Sales	
			minimum	average	maximum	average
1990	12.50	13.49	–	–	–	–
1991	12.00	12.04	–	–	–	–
1992	12.00	13.00	13.80	13.89	–	–
1992 – Jan.	12.00	12.50	–	–	–	–
Feb.	12.00	12.50	–	–	–	–
Mar.	12.00	12.50	–	–	–	–
Apr.	12.00	12.50	–	–	–	–
May	12.00	12.50	–	–	–	–
June	12.00	13.00	–	–	–	–
July	13.75	15.25	–	–	–	–
Aug.	13.25	14.75	–	–	–	–
Sept.	15.00	16.50	–	–	–	–
Oct.	14.00	15.00	14.24	14.28	–	–
Nov.	13.00	14.00	13.83	13.91	–	–
Dec.	12.00	13.00	13.33	13.47	–	–
1993 – Jan.	12.00	13.00	12.29	12.35	–	–

Table a31

rates

Repurchase agreements				TREASURY BILLS			
Purchases		Sales		3-month	6-month	12-month	Average
minimum	average	maximum	average				
11.52	11.90	11.29	11.02	12.28	12.33	12.53	12.38
10.76	10.89	13.69	13.21	12.66	12.53	12.39	12.54
13.42	13.57	–	–	14.48	14.38	14.02	14.32
11.76	11.94	–	–	12.19	12.21	12.15	12.18
11.88	11.96	–	–	12.73	12.17	12.09	12.32
11.96	12.02	–	–	13.05	12.82	12.62	12.83
12.28	12.31	–	–	13.49	13.43	13.06	13.35
12.31	12.33	–	–	13.45	13.21	13.00	13.24
13.91	14.02	–	–	14.42	13.85	13.59	14.00
15.61	15.81	–	–	15.56	15.32	14.69	15.24
14.43	14.58	–	–	15.43	15.24	14.62	15.16
17.49	18.06	–	–	18.05	18.52	17.02	17.98
14.44	14.58	–	–	15.52	16.15	15.92	15.85
12.80	12.92	–	–	15.37	15.23	15.40	15.33
12.21	12.33	–	–	14.45	14.35	14.10	14.33
12.06	12.14	–	–	12.52	11.98	12.59	12.38

Table a32

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	
1989	12.76	13.39	....	....	12.69	9.93	7.02	10.75	10.54	12.99	14.18	14.00
1990	12.40	14.52	14.39	13.72	12.35	9.67	6.73	10.50	10.59	12.37	13.77	13.00
1991	12.25	12.30	13.10	12.92	12.28	9.67	6.67	10.46	10.29	12.12	13.83	13.00
1992 – Jan.	12.36	12.26	12.26	12.15	11.71	9.76	6.78	10.49	10.34	12.43	14.13	13.00
Feb.	12.42	12.33	12.35	12.21	11.76	9.80	6.80	10.48	10.38	12.45	14.14	13.00
Mar.	12.45	12.24	12.33	12.30	11.86	9.80	6.84	10.49	10.38	12.43	14.07	13.00
Apr.	12.53	12.31	12.40	12.41	11.93	9.84	6.89	10.49	10.38	12.46	14.16	13.13
May	12.69	12.37	12.42	12.41	11.98	9.86	6.93	10.49	10.34	12.49	14.28	13.13
June ...	13.58	14.23	14.07	13.46	12.98	10.01	6.95	10.45	10.31	12.68	14.56	14.00
July	15.86	16.90	16.62	15.64	15.11	10.37	7.03	10.67	10.40	13.86	15.88	15.75
Aug.	15.96	15.78	15.74	15.43	14.83	10.78	7.14	11.13	10.60	14.38	16.77	15.38
Sept. ...	20.21	22.06	20.77	18.22	16.98	11.46	7.33	12.05	11.16	15.50	17.87	17.00
Oct.	16.35	15.54	15.71	15.58	14.85	11.95	7.61	12.82	11.67	15.70	18.56	16.25
Nov.	14.32	13.87	14.39	14.50	14.15	11.90	7.57	12.53	11.56	14.81	17.90	14.75
Dec.	13.58	12.72	13.94	13.87	13.59	11.56	7.41	12.26	11.47	14.20	16.92	14.00
1993 – Jan.	(13.30)	12.68	12.65	12.67	12.40	(11.09)	(7.17)	(11.82)	(11.17)	(13.38)	(16.21)	13.63

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	other government securities					
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	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	495,664	81,191	197,340	22,135	126,739	31,202	34,239	85,969	11,247	92,292
May ...	131,296	491,007	82,142	200,258	23,388	127,172	33,084	34,624	88,360	11,900	93,060
June ..	133,153	509,862	83,077	205,461	22,646	130,697	32,679	34,619	91,451	13,067	92,793
July ...	134,215	513,247	89,723	182,856	16,082	118,829	33,885	35,325	89,012	13,413	89,890
Aug. ...	128,361	499,408	91,733	191,750	14,286	129,666	34,437	35,793	83,960	13,198	85,907
Sept. ..	127,090	504,163	102,878	195,288	17,496	126,742	35,812	36,599	95,363	14,436	109,484
Oct. ...	127,804	501,482	102,756	182,811	13,899	121,625	35,767	37,290	97,937	15,309	110,104
Nov. ...	134,163	495,202	112,085	175,355	14,727	113,480	36,401	37,971	112,951	15,354	114,515
Dec. ...	(132,002)	(521,659)	(115,990)	(213,010)	(19,315)	(140,645)	(36,399)	(37,412)	(135,339)	(19,102)	(118,008)
1993 – Jan. ...	(134,224)	(521,159)	(116,290)	(173,010)	(13,815)	....	....	....	....	....	....

	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	CDs								
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	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	92,573	6,132	146,565	209,685	–20,939
May ...	714,561	394,229	175,074	5,893	1,688	2,701	95,531	5,843	148,023	213,059	–21,567
June ..	722,546	401,808	177,453	6,206	1,645	13,608	98,365	7,340	148,589	218,115	–20,251
July ...	697,660	379,310	177,484	7,945	1,649	16,549	96,177	7,332	149,950	218,413	–14,109
Aug. ...	689,733	371,601	177,664	8,288	1,609	25,679	89,901	6,206	150,517	213,913	–21,298
Sept. ..	709,697	386,920	183,602	12,693	1,635	26,045	101,819	6,471	151,784	233,989	–23,020
Oct. ...	712,183	380,613	193,273	11,895	1,627	9,672	102,315	5,463	152,198	232,949	–17,044
Nov. ...	708,754	373,925	197,203	11,502	1,624	1,919	116,731	5,960	153,062	238,125	–3,680
Dec. ...	(775,738)	(431,462)	(200,982)	(11,171)	(1,598)	8,870	(140,923)	(7,084)	(153,331)	(252,694)	(–22,489)
1993 – Jan. ...	(737,138)	(391,462)	(204,082)	....	....	1,899	....	....	....	....	....

Table a34

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 – 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.	8,616	324,780	737	18,797	4,988	6,283	1,869	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	330,220	474	18,328	5,076	6,449	1,974	3,858
July	5,701	334,293	474	18,641	5,052	6,426	1,981	3,874
Aug.	6,370	335,582	474	18,079	4,820	6,370	1,948	3,963
Sept.	6,232	337,790	474	16,274	5,102	6,990	2,120	7,500
Oct.	5,101	339,337	474	15,440	5,101	7,190	2,181	7,239
Nov.	5,411	341,495	474	14,482	5,100	7,535	2,268	6,807
Dec.	....	(347,270)	....	....	....	....	....	....

	LIABILITIES								
	Bonds		Certificates of deposit	Short-term financing	Public funds	*Mediocredito centrale*	Capital and reserves	Foreign liabilities	Other items
	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 – 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	9,268	4,140	35,999	93,974	–15,601
Feb.	153,545	750	73,449	7,840	9,335	4,151	35,999	95,353	–14,811
Mar.	155,855	748	73,646	7,858	9,227	3,913	37,219	97,434	–16,064
Apr.	157,962	748	74,097	7,630	9,255	4,079	37,219	99,201	–18,465
May	158,836	747	74,321	8,105	9,193	4,087	37,219	99,396	–18,401
June	160,306	743	75,216	8,765	9,049	4,117	36,256	99,881	–21,692
July	159,072	583	75,469	8,389	9,176	4,175	36,256	101,479	–18,157
Aug.	159,154	516	75,306	7,673	9,175	4,342	36,256	102,534	–17,351
Sept.	159,413	498	74,236	8,584	8,799	4,173	35,990	107,590	–16,801
Oct.	159,304	484	74,247	9,517	8,637	4,198	35,990	107,940	–18,253
Nov.	161,031	483	74,766	9,516	8,597	4,208	35,990	109,653	–20,673

Table a35

Loans by branch of economic activity

(billions of lire; percentage changes)

December 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	10,015	0.4	6,766	9.8	7,371	–3.6	5,335	2.3
Energy products	9,850	47.2	61	10.9	9,850	17.2	14	16.7
Ferrous and non-ferrous ores and metals	7,147	6.3	322	3.9	3,361	..	30	15.4
Non-metallic mineral products	10,018	12.0	1,850	6.8	5,070	22.3	240	8.6
Chemical products	10,647	16.9	456	10.4	5,200	23.5	50	11.1
Metal products except machinery and transport equipment	16,055	12.6	4,853	6.7	4,738	4.1	459	25.8
Agricultural and industrial machinery	17,046	13.3	2,051	6.5	8,815	0.9	389	9.0
Office and data processing machines; precision and optical instruments	3,623	13.4	358	7.8	2,108	0.1	42	23.5
Electrical goods	12,738	11.2	1,162	8.4	5,480	5.4	114	22.6
Motor vehicles	8,314	27.0	620	8.4	5,648	3.4	93	27.4
Food products, beverages and tobacco products	18,513	9.3	2,817	8.3	8,445	1.8	640	13.1
Textiles, leathers, footwear and clothing	27,768	9.8	5,676	4.9	5,594	12.1	540	13.7
Paper, products of printing and publishing	8,338	11.2	1,440	6.6	3,880	4.5	145	26.1
Rubber and plastic products	5,972	9.6	1,249	5.0	1,867	14.9	115	18.6
Other manufacturing products	10,927	13.6	4,400	8.1	2,785	17.2	474	19.7
Building and construction	46,483	16.5	13,069	10.0	29,605	20.5	3,651	19.5
Wholesale and retail trade	65,137	11.7	28,653	14.6	12,482	10.0	5,098	12.6
Lodging and catering services	5,165	15.9	4,150	18.1	4,818	23.3	2,314	18.0
Inland transport services	6,952	12.9	2,755	5.6	18,141	19.9	216	27.1
Maritime and air transport services	2,487	63.4	59	13.5	1,971	1.1	5	..
Auxiliary transport services	3,658	20.1	328	9.0	2,459	16.3	66	29.4
Communication services	896	23.4	17	13.3	10,483	2.1	1	..
Other market services	49,265	23.4	7,898	15.7	22,411	28.7	2,165	27.9
TOTAL BORROWINGS	357,014	14.9	91,010	11.1	182,582	13.0	22,196	13.5
TOTAL FACILITIES GRANTED	573,713	3.3	114,107	4.8	238,507	11.3	22,964	8.9

Italian investment securities portfolios

(end-of-period balance sheet

	LIRA SECURITIES						
	Government securities				Bonds	Shares	TOTAL
		of which:					
		Treasury bills	Treasury bonds	Treasury credit certificates			
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
1992	32,174	1,492	6,726	18,727	2,652	6,576	41,402
1990 – 4th qtr.	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 "	27,626	790	4,124	17,547	2,694	5,132	35,452
4th "	32,174	1,492	6,726	18,727	2,652	6,576	41,402
1991 – 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.	29,957	592	4,864	19,336	2,761	5,940	38,658
Sept.	27,626	790	4,124	17,547	2,694	5,132	35,452
Oct.	30,413	1,442	5,012	18,493	2,737	5,965	39,115
Nov.	32,441	1,547	6,142	19,213	2,714	6,174	41,328
Dec.	32,174	1,492	6,726	18,727	2,652	6,576	41,402

Table a36

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
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
13,894	6,329	727	56,023	60,663	26,717	732
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
11,801	4,911	952	48,204	56,604	5,075	–2,977
13,894	6,329	727	56,023	60,663	5,934	–1,359
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	5,875	981	58,400	62,277	2,286	722
10,319	5,289	842	55,658	61,074	2,081	–25
10,084	4,735	816	50,391	58,169	2,123	–802
10,165	4,451	904	49,727	58,161	1,272	–210
11,801	4,911	952	48,204	56,604	1,680	–1,965
12,238	5,374	816	52,169	58,643	2,010	–738
13,063	5,862	735	55,126	59,703	2,086	–120
13,894	6,329	727	56,023	60,663	1,838	–501

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	
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	127,124	15,939	3,813	146,875	16,642	–597	5,860	6,726	118,245	18,363
1992	136,437	(11,339)	(–3,608)	(144,168)	(32,649)	–447	*(15,830)*	1,495	*(94,641)*	(15,473)
1990 – 4th qtr. ...	44,108	2,676	–907	45,877	10,791	–85	15,470	1,964	17,737	7,451
1991 – 1st qtr. ...	25,653	2,229	2,111	29,993	2,833	–182	–39,330	2,827	63,844	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 " ...	35,670	6,132	1,515	43,316	20,737	–102	26,770	701	–4,790	9,246
1992 – 1st qtr. ...	40,701	(4,171)	(–755)	(44,117)	3,577	–169	–14,290	540	(54,460)	(6,009)
2nd " ...	44,720	(4,596)	(–768)	(48,547)	17,841	–52	*(22,950)*	3,111	*(4,697)*	(3,240)
3rd " ...	10,397	(–111)	(–1,128)	(9,158)	6,982	–226	*(–9,950)*	–5,712	*(18,064)*	(3,017)
4th " ...	40,619	(2,684)	(–957)	(42,346)	(4,248)	..	*(17,120)*	3,557	*(17,420)*	(3,207)
1991 – Dec.	3,045	2,391	1,224	6,659	8,454	–51	22,420	142	–24,306	5,535
1992 – Jan.	8,847	(–964)	(–54)	(7,829)	6,072	–26	–40,550	724	(41,610)	(1,601)
Feb.	13,620	(3,582)	(–601)	(16,601)	9,632	–94	–5,790	1,273	(11,580)	(1,884)
Mar.	18,234	(1,553)	(–100)	(19,687)	–12,126	–49	32,050	–1,457	(1,270)	(2,524)
Apr.	9,155	(1,882)	(–86)	(10,951)	–8,237	–12	14,720	2,479	(2,001)	(973)
May	24,070	(1,222)	(–228)	(25,064)	11,404	–4	2,940	1,585	(9,140)	(812)
June	11,495	(1,492)	(–455)	(12,532)	14,674	–36	*(5,290)*	–953	*(–6,443)*	(1,454)
July	5,364	(–1,272)	(–871)	(3,220)	6,392	–33	*(–22,560)*	–2,773	*(22,194)*	(2,211)
Aug.	1,186	(881)	(–257)	(1,810)	–13,661	–25	*(8,560)*	–928	*(7,864)*	(133)
Sept.	3,847	(280)	..	(4,127)	14,251	–168	*(4,050)*	–2,011	*(–11,994)*	(674)
Oct.	12,918	(–165)	(–94)	(12,660)	5,908	..	*(–12,920)*	2,127	*(17,545)*	(1,646)
Nov.	18,263	(1,654)	236	(20,153)	6,660	..	*(–7,490)*	1,907	*(19,076)*	(432)
Dec.	9,438	(1,195)	–1,099	(9,533)	(–8,320)	..	*(37,530)*	–477	*(–19,200)*	(1,129)

Table a38

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
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	1,509	6.00	5.2500
36614	BTP	1.9.02	7.10.92	88.80	14.61	12.78	2,962	6.00	5.2500
36614	BTP	1.9.02	5.11.92	94.00	13.51	11.74	1,500	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
36613	BTP	1.9.97	4.11.92	94.75	13.94	12.05	2,000	6.00	5.2500
36613	BTP	1.9.97	3.12.92	94.30	14.10	12.17	1,500	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
36615	BTP	1.10.95	4.11.92	96.50	13.92	11.93	2,500	6.00	5.2500
36615	BTP	1.10.95	19.11.92	97.40	13.51	11.51	2,500	6.00	5.2500
36615	BTP	1.10.95	3.12.92	95.55	14.40	12.34	1,500	6.00	5.2500
36621	BTP	1.1.96	7.1.93	96.55	13.97	12.19	2,000	6.00	5.2500
36621	BTP	1.1.96	21.1.93	98.55	12.96	11.03	1,500	6.00	5.2500
36621	BTP	1.1.96	3.2.93	98.55	12.96	11.01	3,000	6.00	5.2500
36621	BTP	1.1.96	17.2.93	100.40	12.13	10.18	3,000	6.00	5.2500
36622	BTP	1.1.98	7.1.93	95.25	13.83	12.07	2,000	6.00	5.2500
36622	BTP	1.1.98	21.1.93	97.65	13.02	11.23	1,500	6.00	5.2500
36622	BTP	1.1.98	3.2.93	97.55	13.05	11.24	3,000	6.00	5.2500
36622	BTP	1.1.98	17.2.93	99.50	12.47	10.67	3,000	6.00	5.2500
36623	BTP	1.1.03	8.1.93	92.55	13.86	12.11	2,000	6.00	5.2500
36623	BTP	1.1.03	4.2.93	96.20	13.06	11.35	2,000	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
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
36617	CTE	28.10.95	28.10.92	101.25	10.72	9.33	750	1,720.58	11.25	9.8435
36627	CTE	22.2.96	22.2.93	103.40	8.96	7.70	500	1,843.10	10.30	9.0125

Issue conditions of Treasury option certificates

ABI number	Maturity		Date of issue	Price at issue	Yield at issue		Amount taken up (lire bn.)	Coupon		Date of prepay-ment
					gross	net		gross	net	
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
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
36618	CCT	1.11.99	3.11.92	95.35	17.45	15.23	3,000	0.50	7.00	6.1250
36618	CCT	1.11.99	18.11.92	96.10	17.45	15.19	2,500	0.50	7.00	6.1250
36618	CCT	1.11.99	2.12.92	95.25	17.50	15.24	2,000	0.50	7.00	6.1250
36618	CCT	1.11.99	18.12.92	94.15	17.62	15.34	1,500	0.50	7.00	6.1250
36620	CCT	1.1.00	4.1.93	94.00	16.44	14.36	7,000	0.50	7.00	6.1250
36620	CCT	1.1.00	20.1.93	95.20	15.28	13.29	1,500	0.50	7.00	6.1250
36626	CCT	1.2.00	2.2.93	97.00	14.37	12.53	4,000	0.50	7.00	6.1250
36626	CCT	1.2.00	16.2.93	97.25	13.69	11.92	3,000	0.50	7.00	6.1250

Table a39

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
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
1992	13.70	8.95	12.96	6.84	11.90	11.46	12.04	497.70	299.19	155.96	216.75	276.02	139.72	216.42
1990 – 4th qtr. .	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
4th " .	15.81	9.47	14.23	8.24	12.59	11.76	12.95	513.48	320.59	161.33	224.90	283.52	144.40	222.15
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
Oct.	17.23	10.11	15.86	8.63	13.28	12.10	13.24	501.84	318.13	157.29	221.58	275.81	141.60	216.38
Nov.	15.20	9.42	13.55	7.95	12.16	11.57	12.76	517.16	314.17	162.37	225.30	286.76	145.16	223.93
Dec.	15.00	8.87	13.28	8.15	12.31	11.62	12.86	521.46	329.46	164.34	227.83	287.99	146.43	226.13
1993 – Jan.	13.27	7.89	11.81	7.88	11.75	11.26	12.08	532.09	348.29	167.65	230.98	294.78	149.40	234.33

The money

(stocks in

	END-OF-PERIOD				
	Notes and coins	Sight deposits		Other assets	Total: M1
		Banks	Post Office		
1984	41,192	221,733	7,438	10,048	280,411
1985	45,196	244,048	8,761	12,304	310,310
1986	48,336	275,242	9,440	11,280	344,298
1987	52,718	297,245	10,213	11,609	371,785
1988	57,167	323,319	7,696	12,200	400,381
1989	67,644	356,073	9,390	18,681	451,787
1990 – 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	488,792
May	74,648	393,525	7,998	15,028	491,199
June	73,680	400,613	8,642	16,414	499,349
July	79,216	379,058	9,067	17,378	484,719
Aug.	75,715	372,373	9,702	12,027	469,818
Sept.	78,436	390,059	9,808	15,275	493,578
Oct.	78,726	383,170	9,491	15,131	486,518
Nov.	79,981	376,740	8,356	17,419	482,497
Dec.	(85,606)	(434,146)	(8,564)	(15,791)	(544,107)

Table a40

supply

billions of lire)

DATA					AVERAGE DATA		
Bank certificates of deposit	Bank savings deposits	Postal savings accounts	Total: M2	Extended M2	M1	M2	Extended M2
7,547	182,201	8,565	478,723	479,137	....	448,395	448,727
13,309	196,443	9,506	529,568	529,991	289,262	496,028	496,647
21,465	198,049	11,047	574,859	575,234	325,503	548,856	549,234
31,876	200,485	13,434	617,579	617,900	350,845	588,218	588,589
55,866	191,231	16,372	663,850	664,509	376,337	633,041	633,750
86,014	180,862	19,732	738,395	739,476	415,019	695,759	696,758
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
124,105	170,874	23,710	763,694	767,976	453,866	771,704	775,003
126,487	168,495	23,999	757,811	760,822	440,545	758,786	762,433
128,926	166,128	24,167	763,454	767,000	438,999	757,519	760,798
130,240	164,228	24,281	764,615	767,802	441,544	759,669	763,035
133,309	161,660	24,274	758,510	761,635	444,942	765,061	768,217
134,765	161,960	24,328	777,386	780,225	440,379	759,573	762,555
137,406	159,132	24,424	773,945	777,146	448,720	769,051	772,071
139,837	157,676	24,644	765,956	769,173	442,992	763,938	767,147
143,373	156,316	24,766	784,963	788,405	449,288	771,354	774,683
148,371	153,924	24,861	791,908	795,351	458,137	782,924	786,366
150,943	153,356	25,042	797,303	800,811	466,101	793,938	797,414
153,446	160,231	26,512	878,252	881,966	489,277	820,872	824,483
160,474	152,809	26,758	820,998	824,593	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	830,133	835,749
175,018	146,119	27,567	839,903	846,787	486,597	834,044	840,503
177,361	144,123	27,455	848,289	854,669	484,309	832,375	839,007
177,337	142,211	27,238	831,505	837,725	482,363	830,509	836,809
177,509	142,018	27,306	816,650	822,861	467,178	813,287	819,502
183,331	141,540	27,413	845,862	853,082	472,436	818,581	825,297
193,005	140,686	27,488	847,698	854,543	484,173	840,394	847,426
196,962	140,075	27,600	847,134	852,111	478,440	840,649	846,561
(200,738)	(145,490)	(29,336)	(919,671)	(924,618)	(494,221)	(857,569)	(862,531)

Table a41

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 – 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.	763,694	13,563	90,897	294,779	62,508	1,775	1,227,215
Feb.	757,811	14,663	91,134	296,817	63,019	1,944	1,225,388
Mar.	763,454	15,597	91,223	299,663	63,090	1,961	1,234,987
Apr.	764,615	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	1,236,588
June	777,386	21,357	91,449	299,676	66,146	1,614	1,257,628
July	773,945	33,581	91,482	303,669	66,211	1,685	1,270,574
Aug.	765,956	38,988	91,656	302,508	67,028	1,778	1,267,915
Sept.	784,963	38,300	91,629	301,518	66,854	1,619	1,284,882
Oct.	791,908	51,163	91,626	301,347	67,477	1,413	1,304,933
Nov.	797,303	55,439	91,579	300,951	67,309	1,428	1,314,008
Dec.	878,252	47,308	100,253	296,877	69,463	2,103	1,394,256
1992 – Jan.	820,998	70,792	100,204	*(310,561)*	70,150	1,013	*(1,373,718)*
Feb.	817,294	76,284	100,045	*(309,937)*	70,536	1,043	*(1,375,138)*
Mar.	830,241	69,709	99,710	*(307,853)*	70,685	909	*(1,379,107)*
Apr.	835,440	74,536	99,389	*(309,140)*	71,477	1,268	*(1,391,250)*
May	839,903	82,761	99,018	*(313,750)*	71,546	1,259	*(1,408,237)*
June	848,289	79,745	98,614	*(310,970)*	72,618	1,044	*(1,411,279)*
July	831,505	93,536	98,496	*(320,311)*	72,560	1,067	*(1,417,474)*
Aug.	816,650	94,687	98,663	*(326,018)*	72,195	1,042	*(1,409,254)*
Sept.	845,862	91,180	98,463	*(327,373)*	71,036	1,518	*(1,435,432)*
Oct.	847,698	97,845	98,263	*(341,332)*	71,302	2,149	*(1,458,588)*
Nov.	847,134	103,459	98,013	*(348,318)*	71,872	2,534	*(1,471,330)*
Dec.	(919,671)	(87,871)	106,913	*(349,722)*	*(73,922)*	(1,920)	*(1,540,018)*

Table a42

Financial assets

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

	Liquid assets	Medium and long-term securities			Units of investment funds	Other financial assets	Other domestic financial assets	Total financial assets
		Government securities	Bonds of Crediop and autonomous gov. agencies	Other bonds				
1984	644,874	103,811	3,203	34,404	1,164	2,592	790,049	796,437
1985	719,526	145,167	4,689	39,201	19,784	2,901	931,268	939,545
1986	780,261	194,216	5,527	45,666	65,077	3,630	1,094,378	1,102,927
1987	871,683	253,044	6,967	54,058	59,454	3,542	1,248,747	1,255,835
1988	989,818	313,731	7,984	70,449	51,565	3,143	1,436,690	1,436,770
1989	1,128,642	381,585	7,767	79,906	49,165	3,209	1,650,274	1,663,512
1990 – Nov.	1,179,028	452,827	8,695	95,166	46,528	3,341	1,785,585	1,804,388
Dec.	1,245,842	453,965	9,093	87,938	47,379	3,432	1,847,649	1,867,212
1991 – Jan.	1,227,215	465,804	8,858	*(91,533)*	46,714	3,357	*(1,843,481)*	*(1,865,430)*
Feb.	1,225,388	478,538	9,094	*(95,354)*	49,379	3,271	*(1,861,024)*	*(1,881,437)*
Mar.	1,234,987	485,793	9,082	*(95,466)*	50,861	3,217	*(1,879,406)*	*(1,900,469)*
Apr.	1,237,273	497,213	9,263	*(98,247)*	51,723	3,286	*(1,897,004)*	*(1,917,981)*
May	1,236,588	501,189	9,326	*(101,457)*	53,365	3,350	*(1,905,275)*	*(1,926,567)*
June	1,257,628	496,279	9,430	*(104,066)*	53,964	3,366	*(1,924,733)*	*(1,945,706)*
July	1,270,574	491,238	9,418	*(105,598)*	54,509	3,384	*(1,934,721)*	*(1,956,146)*
Aug.	1,267,915	492,148	9,511	*(106,625)*	55,275	3,186	*(1,934,660)*	*(1,956,822)*
Sept.	1,284,882	498,997	9,477	*(108,235)*	55,338	3,414	*(1,960,342)*	*(1,983,201)*
Oct.	1,304,933	494,479	9,322	*(111,072)*	55,653	3,475	*(1,978,934)*	*(2,002,075)*
Nov.	1,314,008	495,893	9,444	*(112,909)*	55,844	3,476	*(1,991,574)*	*(2,015,751)*
Dec.	1,394,256	485,325	9,392	*(115,118)*	56,191	3,536	*(2,063,818)*	*(2,088,753)*
1992 – Jan.	*(1,373,718)*	*(490,071)*	8,570	*(115,564)*	58,102	3,542	*(2,049,567)*	*(2,073,584)*
Feb.	*(1,375,138)*	*(493,053)*	8,363	*(118,721)*	59,492	3,550	*(2,058,318)*	*(2,082,934)*
Mar.	*(1,379,107)*	*(500,923)*	7,706	*(120,408)*	59,753	3,553	*(2,071,449)*	*(2,097,060)*
Apr.	*(1,391,250)*	*(496,083)*	8,137	*(122,674)*	61,245	3,572	*(2,082,961)*	*(2,109,259)*
May	*(1,408,237)*	*(492,964)*	8,977	*(123,145)*	62,277	3,587	*(2,099,187)*	*(2,126,212)*
June	*(1,411,279)*	*(490,651)*	*(8,062)*	*(121,910)*	61,074	3,590	*(2,096,565)*	*(2,124,334)*
July	*(1,417,474)*	*(487,875)*	*(7,734)*	*(121,030)*	58,169	3,611	*(2,095,894)*	*(2,123,889)*
Aug.	*(1,409,254)*	*(489,462)*	*(7,768)*	*(120,768)*	58,161	3,618	*(2,089,031)*	*(2,116,713)*
Sept.	*(1,435,432)*	*(479,829)*	*(7,736)*	*(119,722)*	56,604	3,668	*(2,102,992)*	*(2,130,663)*
Oct.	*(1,458,588)*	*(480,247)*	*(8,161)*	*(119,671)*	58,643	3,713	*(2,129,023)*	*(2,156,341)*
Nov.	*(1,471,330)*	*(485,747)*	*(8,184)*	*(121,519)*	59,703	3,715	*(2,150,198)*	*(2,176,050)*
Dec.	*(1,540,018)*	*(482,419)*	*(8,304)*	*(120,392)*	60,663	*(3,767)*	*(2,215,563)*	*(2,241,340)*

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 – 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	*(27,592)*	*(774,761)*	*(145,150)*
Feb.	485,397	262,445	*(29,826)*	*(777,668)*	*(153,319)*
Mar.	483,859	266,361	*(29,880)*	*(780,101)*	*(157,750)*
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)*	*(814,755)*	*(147,350)*
July	531,040	275,911	*(29,140)*	*(836,091)*	*(144,644)*
Aug.	519,476	279,152	*(28,844)*	*(827,473)*	*(142,010)*
Sept.	522,251	279,137	*(29,772)*	*(831,160)*	*(138,717)*
Oct.	532,061	282,742	*(29,416)*	*(844,220)*	*(138,483)*
Nov.	537,199	287,839	*(29,915)*	*(854,953)*	*(135,716)*
Dec.	567,182	290,942	*(30,673)*	*(888,797)*	*(128,383)*
1992 – Jan.	566,095	292,433	*(30,617)*	*(889,146)*	*(133,475)*
Feb.	566,016	295,405	*(30,013)*	*(891,434)*	*(135,564)*
Mar.	569,668	298,963	*(29,877)*	*(898,508)*	*(135,619)*
Apr.	574,246	302,758	*(29,701)*	*(906,706)*	*(136,799)*
May	570,558	306,590	*(29,431)*	*(906,579)*	*(137,852)*
June	590,321	303,711	*(29,050)*	*(923,081)*	*(135,921)*
July	600,445	308,038	*(28,248)*	*(936,731)*	*(137,507)*
Aug.	588,561	309,332	*(28,184)*	*(926,077)*	*(139,976)*
Sept.	604,357	311,086	*(28,225)*	*(943,668)*	*(138,238)*
Oct.	601,507	313,227	*(28,118)*	*(942,852)*	*(141,741)*
Nov.	604,601	315,316	*(28,296)*	*(948,213)*	*(136,242)*
Dec.	(634,945)	(319,842)	*(27,354)*	*(982,142)*	*(133,656)*

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
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)	1,275,284	57,166	1,332,450	*(2,055,385)*	*(2,270,301)*
(948,356)	1,292,233	57,230	1,349,462	*(2,082,093)*	*(2,297,818)*
(955,843)	1,309,230	56,600	1,365,830	*(2,110,358)*	*(2,321,673)*
(962,105)	1,301,480	57,776	1,359,256	*(2,116,234)*	*(2,321,361)*
(980,735)	1,313,876	56,792	1,370,668	*(2,149,966)*	*(2,351,403)*
(969,483)	1,326,289	56,904	1,383,194	*(2,153,762)*	*(2,352,676)*
(969,877)	1,349,935	55,497	1,405,433	*(2,181,095)*	*(2,375,310)*
(982,702)	1,370,434	55,827	1,426,261	*(2,214,653)*	*(2,408,963)*
(990,669)	1,384,895	55,566	1,440,460	*(2,239,848)*	*(2,431,130)*
(1,017,179)	1,399,091	54,698	1,453,789	*(2,287,887)*	*(2,470,969)*
(1,022,621)	(1,405,235)	55,576	(1,460,811)	*(2,294,381)*	*(2,483,432)*
(1,026,998)	(1,415,746)	54,561	(1,470,307)	*(2,307,180)*	*(2,497,305)*
(1,034,127)	(1,442,435)	55,098	(1,497,533)	*(2,340,943)*	*(2,531,660)*
(1,043,505)	(1,465,964)	54,596	(1,520,560)	*(2,372,670)*	*(2,564,065)*
(1,044,430)	(1,485,182)	53,640	(1,538,822)	*(2,391,761)*	*(2,583,252)*
(1,059,003)	(1,476,146)	53,016	(1,529,162)	*(2,399,227)*	*(2,588,165)*
(1,074,238)	(1,490,763)	52,387	(1,543,150)	*(2,427,494)*	*(2,617,388)*
(1,066,053)	(1,493,568)	51,972	(1,545,541)	*(2,419,645)*	*(2,611,594)*
(1,081,906)	(1,518,227)	58,496	(1,576,723)	*(2,461,895)*	*(2,658,629)*
(1,084,593)	(1,531,831)	58,606	(1,590,437)	*(2,474,683)*	*(2,675,029)*
(1,084,455)	(1,556,594)	59,924	(1,616,518)	*(2,504,807)*	*(2,700,973)*
(1,115,798)	(1,572,961)	64,500	(1,637,461)	*(2,555,103)*	*(2,753,259)*

Table a44

M2 and its counterparts

(changes in billions of lire)

	M2	COUNTERPARTS				
		Official reserves	Banks' net foreign position	Credit to the non-state sector	Credit to the state sector	Other
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)	78,521	31,839	(167)
1992	(41,420)	(–32,549)	(–26,837)	*(53,558)*	*(58,119)*	*(–10,869)*
1990 – 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.	–38,769	(–794)	(999)	–5,782	–26,634	(–6,557)
Feb.	–5,883	(2,392)	(2,434)	–1,482	–10,772	(1,545)
Mar.	5,643	(6,180)	(–657)	–2,913	2,537	(496)
Apr.	1,161	(–761)	(865)	7,515	2,026	(–8,485)
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.	6,945	(–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)	30,417	26,778	(31,425)
1992 – Jan.	–57,254	(–566)	(–5,709)	–1,191	–33,626	(–16,163)
Feb.	–3,704	(719)	(–7,069)	–205	778	(2,073)
Mar.	12,947	(–845)	(–10,084)	(4,400)	24,291	(–4,815)
Apr.	5,200	(–4,554)	(–7,206)	(5,819)	21,370	(–10,229)
May	4,463	(–1,054)	(–3,761)	(–3,069)	7,015	(5,332)
June	8,386	(–7,781)	(–7,129)	*(21,003)*	*(–3,502)*	*(5,795)*
July	–16,784	(–10,502)	(–7,494)	*(11,152)*	*(–3,287)*	*(–6,652)*
Aug.	–14,855	(–4,572)	(–2,222)	*(–10,823)*	*(–3,351)*	*(6,114)*
Sept.	29,211	(–29,858)	(23,811)	*(3,867)*	*(32,151)*	*(–759)*
Oct.	1,836	(10,216)	(2,380)	*(–2,173)*	*(–2,402)*	*(–6,184)*
Nov.	–563	(3,330)	(2,920)	*(649)*	*(4,401)*	*(–11,864)*
Dec.	(72,537)	(12,918)	–5,274	*(24,129)*	*(14,281)*	*(26,483)*

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, see the notes to Table a16.

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 a33); 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

Source: 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

Sources: 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 Banca d'Italia, *Economic Bulletin*, no. 15, October 1992.

Table a11

Sources: Based on IMF, Istat and OECD data.

The countries included in the EC 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 Banca d'Italia, *Economic Bulletin*, no. 15, October 1992.

Table a12

Italian credit system: for the purposes of the table, comprises the operational units of banks and special credit institutions (branches in Italy and abroad) and the Italian branches of foreign banks; "Foreign position" comprises all claims on non-resident operators except loans granted by branches abroad to local operators in the currency of the host country.

Country grouping: that adopted by the BIS.

Table a13

Source: Istat.

Seasonally adjusted data: "Other domestic uses" comprises government consumption and change in stocks.

Table a14

Sources: Based on Istat and Isco data.

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

Stocks of finished goods: raw data.

Table a15

Source: Based on Istat data.

Since January 1991 Istat has related the sample results to the total population with account also being taken of registry data on the age-group composition of the latter. This has caused a break in the series.

Unemployment rate: 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

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 domestic debt.

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 since January 1989. Previously prudential returns were used for the banks and Central Credit Register data for the special credit institutions. The foreign debt includes only loans contracted directly in foreign currency and Treasury credit certificates in ecus that are stamped as being for circulation abroad.

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

Table a22

Foreign sector: corresponds to the change in the net external position of BI-UIC, net of exchange rate adjustments.

Treasury: comprises the BI-UIC 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 of collateral for banker's drafts. Since October 1990, the item comprises the reserve account, the free deposits of the banks not subject to the compulsory reserve requirement and deposits of 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 (a minus sign indicates net purchases).

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

Exchange rate adjustments are excluded from the calculation of the stock of monetary base corresponding to the "Foreign sector". This aggregate accordingly coincides with the net external position of BI-UIC. To ensure the consistency of the accounts, valuation adjustments are also excluded from the calculation of the stock corresponding to "Other sectors". Foreign currency swaps are translated using end-month exchange rates.

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 unrealized capital losses on securities.

Deposits with BI: until September 1990, comprises the compulsory reserves, free reserves and deposits of collateral for banker's drafts. Since October 1990, the item comprises the reserve account, the free deposits of the banks not subject to the compulsory reserve requirement and deposits of 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: includes 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

Competitive bid auctions. 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 based on the spread (forward points) between the spot and forward rates.

The forward points are the points that have to be added to the spot rate to arrive at the forward rate.

Yields are stated as percentages and amounts in billions of Deutschemarks or US dollars; spot rates and forward points are stated in lire.

The yields are "indicative" rates computed with reference to the spread between the spot rate and the forward rate and to the Libor rate on the currency of the transaction.

Table a31

Discount 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.

The rates on **Foreign currency swaps** and **Repurchase agreements** are 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 a32

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 a33

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 a34

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 a35

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.

The twelve-month changes are computed without taking account of exchange rate adjustments.

Table a36

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 a38

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 a39

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 a40

For the 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.

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.

Rounding may cause discrepancies in totals.

Table a41

For the 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.

Rounding may cause discrepancies in totals.

Table a42

The table refers to the financial assets of the non-state sector, net of shares. The differences with respect to the figures published in the issues of the Bulletin up to no. 14 are due to the change in the definition of money and refinements in the methods of calculation.

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. The item excludes government securities acquired by the non-state sector under repurchase agreements, included under liquid assets.

Other bonds: includes bonds issued by public and private sector enterprises, special credit institutions and local authorities. The item excludes bonds acquired by the non-state sector under repurchase agreements, included under liquid assets.

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).

Rounding may cause discrepancies in totals.

Table a43

The differences with respect to the figures published in the issues of the Bulletin up to no. 14 are due to refinements in the methods of calculation.

Loans to the non-state sector: includes loans in foreign currency. The disaggregated data are partly estimated up to 1989.

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.

Rounding may cause discrepancies in totals.

Table a44

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.

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.

Rounding may cause discrepancies in totals.

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 nazionale di statistica* National Institute of Statistics
SACE	—	*Sezione per l'assicurazione dei crediti all'esportazione* Export Credit Insurance Agency
UIC	—	*Ufficio italiano dei cambi* Italian Foreign Exchange Office

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at 28 February 1993

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